Business Development/Recruitment Subgroups Interim Report

<u>Subgroup Activity:</u>

The Business Development and Business Recruitment Subgroups have held three interim meetings in Richmond. Meetings were held June 2nd (Recruitment) and 3rd (Development), July 7th and July 19th. After the initial subgroups meeting there was a desire for the two subgroups to meet jointly as their focus is closely aligned. Because of the interest in Research and Development and collaboration with Virginia colleges and universities, outreach efforts to the University Economic Developers Association and Council on Virginia's Future have taken place. In addition, presentations have taken place from the Virginia Economic Development Partnership. Stakeholders meetings with the Virginia Municipal League, Virginia Hospitals and Healthcare Association and Virginia Retail Federation have taken place.

<u>Analysis:</u>

Virginia has consistently been ranked #1 or #2 over the last four years as the best place in the country to do business. However, in the ALEC-LAFFER State Economic Competitiveness Index, Virginia was ranked #4 in Economic Outlook in 2009 and dropped four spots to #8 in 2010. It is important the Commonwealth have a balanced approach to recruiting new businesses, helping businesses start, and retain and expand existing business (where 70 percent of growth is from existing business). There is a great desire to create a stronger synergy between business and higher education, regionalism amongst localities and using all assets (not just state government and local government) to make Virginia *the choice* for business. Areas of taxation as well as workforce training are a great concern for impeding to job creation. In addition, the uncertainty in the business community of the true impact of legislation and regulation coming out of Washington is a huge concern for having a negative impact on job creation in the Commonwealth.

<u>Vision/Strategies:</u>

I. Analyze existing economic development programs and initiatives, including regional and local initiatives, and recommend opportunities to recruit, retain and expand existing business to the Commonwealth focusing on targeted areas of information technology, advanced manufacturing, energy and life sciences – including domestic and international business.

II. Assess Business Recruitment/Retention Transition Work Group recommendations and build upon proposals.

III. Assess potential threats to existing businesses and business recruitment in the Commonwealth – including incentives, tax structure and workforce.

IV. Assess current obstacles to business expansion and recruitment – whether through regulations or legislation at the local, state and federal level and propose actions to remove these obstacles.

V. Analyze what competitor states are doing with regard to business development and recruitment, and recommend similar programs/initiatives that can be launched in the Commonwealth to improve the Commonwealth's position as the best place to do business.

VI. Analyze and recommend opportunities to better leverage marketing of existing Virginia business domestically and internationally.

VII. Analyze and recommend opportunities to better utilize existing economic development assets.

VIII. Analyze and recommend ways to better integrate higher education system and support CCAM and "Centers of Excellence" focused in targeted areas.

Initial Ideas and Recommendations:

The top priority of Governor Bob McDonnell and his administration is to create a "Commonwealth of Opportunity" for all Virginians. This message is resonating in the business community – and we should take every opportunity to harness this energy and capitalize on job creation opportunity from existing business as well as new corporate citizens in the Commonwealth.

Initial ideas and recommendations of the subgroup are as follows:

Taxation and Incentives

In economic development, there is no standing still. It is a dynamic, ever changing environment where the competition for jobs and new investment grows more intense every day. As a result, we must be constantly examine our government policies, particularly tax policies, to ensure Virginia maintains its competitive lead and effectively responds to actions taken in other states and overseas. Among the policies actively discussed among the subgroup members was the proposed elimination of Virginia's corporate income tax. Several states and countries that are key competitors of Virginia have either reduced, or are taking steps to eliminate, this tax. The subgroup believes such an action, among others, could be a game changer for Virginia - sending a bold statement to companies that Virginia is indeed open for business and business investment.

At the same time, however, other taxes impose similar competitive disadvantages upon Virginia businesses, notably the BPOL tax and the machinery and tools tax. The current review of the corporate income tax by JLARC that will be released in November will be useful to determining what kind of a potential impact the elimination of that tax could have on job attraction and retention efforts. Any action taken to reform or eliminate these burdensome taxes should be done in such a way to complement the state's business development goals as outlined in the state's economic development strategic plan.

The subgroup recognizes the need to provide the right incentives for companies that are easily moved that do not require large facilities and infrastructure. In addition, there is an interest in an Emerging Technologies Fund, similar to a program in Texas, providing flexibility in incentive opportunities as it relates to quickly evolving technologies – addressing small, medium and large businesses. A particular area of focus for the Commonwealth is the life sciences and biotechnology. Burdensome taxation is the biggest problem for the expansion of biosciences – and is also a factor into why people are leaving money overseas rather than investing in the Commonwealth.

In examining all new incentives, as well as existing incentives, the Commonwealth should have a rigorous return on investment strategy, aligned with benchmarking and accountability to be good stewards of the public dollar.

Education and Research and Development

The subgroup recognizes the need to systematically make fundamental changes in how we disseminate information on our institutions of higher education excellence. There is currently no method to know about the pockets of excellence in our higher education system. The intellectual and innovative capital between the University of Virginia and Virginia Tech has recently been described by a CEO of a technology company as being strong than MIT but underutilized.

There is a consensus that our universities research and development capabilities and collaboration with the private sector are deficient. By coordinating our academic institutions and creating them as economic engines, there is a desire to create “think tanks” with academic institutions, such as Commonwealth Center for Advanced Manufacturing, that carry on the economic strategies and target areas discussed at the state level.

In addition, curriculum at the community colleges and four-year institutions of higher education should be aligned with economic development strategies of the Commonwealth. We should be able to say we will have a state-trained and prepared workforce with a one year notice of a business request.

Business Climate and Regulation

Business relationships are key and perhaps the best opportunity for business development and recruitment by the Commonwealth. Just as private sector business leaders build new opportunity through relationships – Administration and economic development leaders should aggressively engage in building business relationships as part of a process to stay in tune with the business community. This will assist with keeping a finger on the pulse of how to better structure transportation, taxes, workforce policies, programs and regulations to support business expansion through practical, real world experience.

During recruitment of new business opportunities, Administration and economic development leaders at the state and local level should engage a coalition of partners to create a synergy. Often bringing the community together to solve problems could be instrumental in demonstrating why Virginia is the choice for a company to relocate, expand or start up.

The Commonwealth is ranked one of the best states to do business and we ought to enhance and build upon Virginia's strengths. These are not only business strengths – but also the strengths of our population, natural resources and a positive direction of where Virginia is headed in the next five years. We should better showcase why Virginia is the best of the best in industry.

One of the most frustrating parts of interaction between business and government is time. Time is money and all too often government interaction and services take too much time. An examination of regulations that make no sense and take unnecessary time is suggested – recognizing this is an area for the Commission on Government Reform. There are multifaceted aspects of a project – any one of a dozen government agencies can do a project in – and the agencies should work better together. A project manager approach could be an effective tool to this and regional economic development offices might also be examined.

While there is a great need for venture capital in the marketplace – there is a concern government involvement only makes venture capital opportunities worse.

The subgroup would like to examine opportunities for tort reform to reduce the cost of doing business in the Commonwealth. Proposed legislation on summary judgment might be an area to examine.

Regional Collaboration

There is a recognized need for more regional collaboration in the Commonwealth – and how can the state reward areas for working together not only within a region but also amongst regions. An examination of the Regional Competitiveness Act might be worthwhile to see if there is an opportunity to refocus and reinvigorate this program.

Federal Policies

There is a great concern of the impact of health care reform and a need to look for opportunities where the Commonwealth might be able to lead. The group also recognized the potential negative impact of policies coming out off Washington, D.C., both through legislation and regulation. The federal government will be a driver in a number of areas and the Commonwealth needs to formulate a policy to address these concerns.

Next Steps

The August meeting will focus on aerospace, higher education (CCAM), the Virginia Port and regionalism. A survey will be disseminated to statewide stakeholders. Members of the Jobs Creation Commission will be participating in a panel at the Virginia Economic Developers Association and we will receive feedback from them. In addition, staff will continue outreach with stakeholders and recommendations to the group.

Governor's Commission on Economic Development & Job Creation

Economically Distressed Areas Subgroup Interim Report

Subgroup Activity:

The Economically Distressed Areas Subgroup of the Governor's Economic Development and Job Creation Commission held its first meeting on May 26th in Richmond, Virginia. At the first meeting, Subgroup members discussed and approved Subgroup visions and goals and divided responsibilities between its members.

In the interim, staff reached out and met with several stakeholder groups and assisted with research requested by members. Bill Shelton, Director of the Department of Community and Housing Development, researched topics for members which gave a synopsis of economic development issues in distressed areas of the Commonwealth.

The Economically Distressed Areas Subgroup of the Governor's Economic Development and Job Creation Commission held its second meeting on July 8th in Richmond, Virginia.

At this meeting, the Subgroup heard presentations from Kelly Harris-Braxton and Jim Regimbal of Virginia First Cities, who discussed the role that Virginia's urban cities play in economic development and offered recommendations on items impacting Virginias' cities. We also heard from Glen Sink, Executive Director of the Virginia Rural Center, who presented information on behalf of the rural community and discussed recommendations and suggestions offered by the Rural Prosperity Commission data.

The Subgroup also heard from Karen Jackson, Deputy Secretary of Technology who gave an overview of Broadband advancement in the Commonwealth, Mike Kaestner from the Virginia Economic Development Partnership who discussed economic development incentives available to Economically Distressed communities, and Peter Su and Scott Parsons with the Virginia Department of Business Assistance (DBA) who talked about the role that DBA's programs play in revitalizing Virginia's hardest hit communities..

Members of the Subgroup then reported on items they were responsible for researching and gave a list of initial recommendations.

The third meeting of the Economically Distressed Areas Subgroup will be held on August 17th in Richmond, Virginia.

The Economically Distressed Areas Subgroup has identified a number of stakeholder groups including: Virginia First Cities; the Center for Rural Virginia, National Federation of Independent Businesses; Virginia Municipal League, Virginia Association of Counties, Virginia Agribusiness Council, Virginia Bankers Association, Virginia Housing Development Authority, Virginia Farm Credit Association, Virginia Farm Bureau, Virginia Chamber of Commerce (and local Chambers) and the Virginia Economic Development Partnership.

Analysis:

Traditional incentive programs such the Governor's Opportunity Fund, Virginia Enterprise Zone Program and the Virginia Jobs Investment Program have served Virginia well and should continue to be important tools in Virginia's business recruitment efforts. However, these programs must be adequately funded. Funding for these vital programs has been reduced in recent years and should be restored.

In recent years the Virginia Enterprise Zone Program has not been able to fully meet qualified businesses grant application amounts. In FY 2010, Enterprise Zone grants were pro-rated at 60 cents on the dollar. Virginia must fulfill delivery of "promised" incentives to companies which have delivered on jobs and investments.

The Virginia Jobs Investment Program (VJIP) has historically been one of the major, value-added economic development incentives sought by companies. The number one concern of most expanding businesses and prospects is whether or not they will be able to hire a quality workforce. Not only does the program offset qualifying companies' recruitment and training costs, it also connects them with all available resources to help with their workforce development efforts. VJIP has statewide accessibility, but is especially valuable to distressed communities with a declining manufacturing base.

In 2005, the Virginia Agricultural Enterprise Act was passed; however, the lack of funding has prohibited its implementation. The Department of Agriculture and Consumer Services would establish, as an element of the Office of Farmland Preservation, agricultural enterprise districts upon application by localities with established agricultural or forestal districts, locally designated agricultural enterprise districts, or purchase of development rights programs. "Qualified agricultural businesses" and "qualified farm businesses" located in such districts may apply to the Department for assistance in developing a new business plan and grant funding for up to 50 percent of the associated costs of implementing that plan, up to a maximum of $500,000.

Several southern states, including North Carolina, Georgia, and South Carolina, have attempted to minimize the competitive disadvantages in economically distressed areas by providing special tax incentives. For example, North Carolina passed the William S. Lee Act in 1996 in order to promote investment and job creation in the less developed regions of the state. It separated the counties into tiers, with job creation and investment tax credits increasing dramatically in a less developed county. This program has received mixed reviews and should be further researched before recommended to Commission.

Several stakeholders have brought concerns about derelict structures to the Subgroup. These vacant structures become a black eye on the community and companies are unwilling to relocate to these communities. While the Virginia Department of Historic Resources administers several historic rehabilitation tax credit programs, additional state incentives should be considered to encourage the rehabilitation of historic buildings in older neighborhoods and commercial districts in localities in Virginia. A direct result of restoring historic buildings and former industrial sites would include job creation, downtown and neighborhood revitalization, improved community appearance, and greater community pride. This program could be modeled after the North Carolina State Mill Rehabilitation Tax Credit or similar programs existing in other states.

A current state program that promotes economic and physical revitalization of historic downtowns and neighborhood commercial districts is the Virginia Main Street program. The Main Street program utilizes a comprehensive, incremental approach to revitalization built around a community's unique heritage and attributes. Using local resources and initiatives, Main Street helps communities develop their own strategies to stimulate long term economic growth and pride in the traditional community center --downtown. This program should be expanded to include additional communities.

A major concern facing Distressed Communities is access to capital. To help address some of the financing issues in distressed regions, the state created Virginia Community Capital, Inc (VCC). Virginia Community Capital is a multimillion dollar non-profit, community development financial institution (CDFI) and banking entity providing innovative loan and investment solutions for affordable housing and economic development projects in Virginia. VCC is a unique banking structure that provides loan capital that is broader than bank lending to projects that have a positive community impact in low- to moderate-income communities in underserved geographies and markets. State support and investment in the Virginia Community Capital will enable Virginia to better reach these underserved populations.

Additionally, the Virginia Small Business Financing Authority (VSBFA) provides funding to Virginia's businesses in support of economic development projects. The VSBFA offers direct revolving loan and loan guaranty programs statewide and focuses heavily on assisting businesses in distressed areas of Virginia. The VSBFA's largest and oldest revolving loan program, the Economic Development Loan Fund, is targeted specifically to assisting businesses and economic development projects in rural and distressed regions of the state.

Vision Strategies:

To put Virginia back on the road to recovery, we must pay attention to the areas that have been the hardest hit. No recovery will be complete until jobs and economic opportunity are available in all parts of Virginia. The McDonnell Administration has already placed a great emphasis on urban and rural communities with the 2010 Legislative Agenda and the appointment of a Deputy Secretary for Rural Economic Development. This Subgroup will develop the next steps to provide new jobs and economic opportunity in distressed areas.

Approach:

This Subgroup will examine existing programs/initiatives (both within the Commonwealth and in other states) and look at ways to improve economic development in both our rural and urban localities and recommend innovative ideas to get people in our hardest hit communities back to work.

Strategies:

I. Develop strategies to expand deployment of high-speed broadband and other infrastructure improvements in economically distressed areas.

II. Assess state incentive programs can be designed to locate, retain and expand businesses in economically distressed areas

III. Encourage distressed areas to identify, embrace and promote asset-based economic development opportunities.

IV. Increase regional collaboration and regional marketing in economically distressed areas.

V. Promote the revitalization of vacant or underutilized commercial and industrial buildings.

VI. Determine how development of both traditional and renewable energy resources can be maximized in rural and urban areas

VII. Consider recommendations on how to expand agri-business opportunities and market Virginia agricultural products across the nation and around the world.

VIII. Increase access to capital for businesses in economically distressed areas.

IX. Consider expanding programs like “Return to Roots” to recruit the skilled workforce to support target industries like advanced manufacturing and information technology.

X. Expand ability of communities to develop and implement strategic economic development projects and initiatives, including strategies to assist and streamline permitting and zoning processes for smaller localities and municipalities.

Initial Ideas and Recommendations:

The Economically Distressed Areas Subgroup is taking an all-inclusive approach for ways to improve Economically Distressed communities including legislative action, budgetary action and lastly any action the Governor can issue via Executive Order.

Initial recommendations and suggestions include, but are not limited to:

1) Fully fund the states Enterprise Zone grant incentives to avoid proration of awards to eligible companies. As noted above, Virginia currently funds this program at 60%.

2) Increase funding for the Governor's Opportunity Fund, a proven tool to enhance economic development in distressed communities.

3) Continue to leverage grants from TICR's Tobacco Region Opportunity Fund with GOF and other applicable state and local incentives to attract significant private capital investment and create jobs in distressed areas.

4) Increase funding for the Virginia Jobs Investment Program and the Virginia Community College System for their efforts to provide customized recruiting, training services and workforce development programs and examine the effectiveness of "Return to Roots" initiative and provide recommendations to improve and potentially expand it across Virginia. Workforce Development is a critical issue facing economically distressed communities and these programs and institutions provide vital resources to new and expanding companies while strengthening Virginia's competitiveness for economic development projects.

5) Consider additional financial or tax incentives that will enhance the economic feasibility of reusing the state's former industrial sites, neighborhood commercial districts and historic downtowns.

6) Allocate additional funding for Virginia's Main Street program to enhance the program's ability to help communities develop strategies to stimulate long term economic growth and promote economic and physical revitalization of historic downtowns.

7) Determine feasibility of implementing existing Agriculture Enterprise Zone Act.

8) Market Virginia Agriculture/Forest products by serving at all state-sponsored events, adequately funding existing promotional programs in VDACS, and including all agri-tourism activities in tourism promotions.

9) Ensure higher education opportunities for agriculture, forestry, and veterinary medicine students by finding a solution for accepting more rural students into Virginia Tech and Virginia State University seeking agriculture degrees, and supporting recruitment/retention of large animal veterinarians in rural Virginia.

10) Invest in agriculture and forestry research to ensure agribusiness industry economic viability and growth

11) Consider strategies to increase the number of agricultural and rural economic development focused graduates from Virginia higher education institutions, including Virginia Tech and Virginia State University.

12) Support recruitment/retention of large animal veterinarians in rural Virginia.

13) Re-introduce HubZone legislation.

14) Establish guidelines that better target under-represented business populations on state procurement contracts to companies that partner with higher education institutions and community non-profit organizations in economically distressed areas.

15) Provide meaningful incentives to areas that address economic development needs on a regional, rather than a local, basis.

16) Adopt a three-tiered system of preferential tax treatment for employers in economically distressed localities of Virginia.

17) Provide clear definition of Economically Distressed Areas so that there are no misunderstandings.

Next Steps:

The Subgroup will continue to meet with stakeholders to solicit their ideas and recommendations. Furthermore, we will issue a survey that is being developed to solicit ideas from interested parties. The Economically Distressed Areas Subgroup will meet once again in August to further vet recommendations, followed by our September meeting to finalize list of recommendations to send to the Governor.

Governor's Commission on Economic Development & Job Creation

Energy Subgroup Interim Report

Subgroup Activity:

The Energy Subgroup has held two interim meetings in Richmond. Meetings were held June 16th and July 7th. Because of the interest in Research and Development and collaboration with Virginia colleges and universities, outreach efforts to the University Economic Developers Association and Council on Virginia's Future have taken place. A number of stakeholders helped in the development of the Virginia Energy Plan, which was presented to the Energy subgroup. There is great interest in nuclear energy and further activity in that area will be an area of outreach. In addition, coordination with the Governor's Commission on Higher Education is paramount due to the workforce needed for advanced technology and advanced manufacturing jobs in the energy sector and emerging technology space.

Analysis:

Virginia has a tremendous amount of energy assets, but the trick is how to optimize all of the assets – and have a net number of jobs to offset potential job loss in other areas. In addition, the subgroup believes the fundamentals that will define energy are technology – not subsidies. The consumer will end up making the decisions about cars, electricity, insulation, etc. and the consumer will determine the price. A challenge to energy in the Commonwealth is how the State Corporation Commission (SCC) plays into this picture as they look into the consumer and the rates.

The Energy Subgroup identified short-term, mid-term and long-term energy job-related sectors. For the short-term (1-2 years) the subgroup identified conservation, biomass and infrastructure (pipelines and transmission lines) as the areas of potential job creation opportunities; mid-term opportunities (3-5 years) are identified in the nuclear sector and uranium mining (if approved); and long-term in the offshore wind and offshore oil and natural gas for potential job creation opportunities. The subgroup identified conservation efforts as the biggest bang for the buck for short-term opportunities.

In addition to the work of the subgroup, it is important to recognize the Virginia Energy Plan for the McDonnell Administration was released on July 1, 2010, with recommendations for energy jobs and innovation in the Commonwealth. The Executive Summary and recommendations are included with the report of the Energy subgroup and the entire Virginia Energy Plan can be found on the Virginia Department of Mines, Minerals and Energy web site: http://www.dmme.virginia.gov/DE/VAEnergyPlan/VEP-2010.shtml

Vision/Strategies:

I. Analyze existing energy-related programs and initiatives and recommend opportunities to better position Virginia as the Energy Capital of the East Coast.

II. Assess Energy Transition Work Subgroup recommendations and build upon proposals.

III. Assess potential of federal programs to leverage for Virginia benefits.

IV. Assess potential threats to Virginia's energy industry through federal regulation and legislation, and existing workforce – working with the Higher Education Commission.

V. Analyze existing Virginia energy incentives to ensure flexibility with emerging technologies – such as the solar photovoltaic incentive grant among others – as well as potential unused assets.

VI. Examine the potential for a Virginia Advanced Energy Fund to attract energy-related economic development projects.

VII. Analyze what competitor states are doing with regard to energy and recommend similar programs/initiatives that can be launched in the Commonwealth.

Initial Ideas and Recommendations:

In other regions of the United States, mandated renewable portfolio standards are driving the energy sector. Virginia has a voluntary renewable portfolio standard to provide incentives for use of alternative/renewable energy. By building on existing energy resources and moving for with new technology for the future, there are tremendous opportunities for the Commonwealth to become the Energy Capital of the East Coast – the goal put forth by Governor Bob McDonnell. All energy sectors have competing interests and a coordinated effort – from coal to offshore wind – is necessary to come up with a common ground to work toward this goal.

Initial ideas and recommendations of the subgroup are as follows:

The armed forces are working toward a goal of producing 25 percent of their energy needs from renewable sources by 2025.The significant military presence in the Commonwealth provides a terrific prospect to leverage the military's goal in this regard and provide the infrastructure and manufacturing for this renewable energy portfolio.
The permitting process for energy facilities that are not permit by rule can make it five years before a job can get online. The subgroup seeks methods to make the permitting process easier to move projects online quicker.

While there is a significant amount of natural gas in Southwest Virginia from coalbed methane, the inability to move this natural gas is a hindrance. Improving infrastructure through additional pipeline can move this source of energy to Southside Virginia and provide additional energy resources.

Nuclear resources must be in the mix of energy resources for the Commonwealth. This includes getting nuclear engineering and nuclear technician programs back online. While Virginia Tech, the University of Virginia and Virginia Commonwealth University have moved in this direction – this is an area of void in the energy workforce. There are two ongoing studies on uranium mining in the Commonwealth and the subgroup emphasized the need to have the studies completed in short order rather than taking multiple years to study.

Research centers in the Commonwealth are key to getting energy-related jobs. There is a consensus that our universities research and development capabilities and collaboration with the private sector are deficient. The five energy centers being brought online by the Virginia Tobacco Commission are an opportunity to create a synergy in this area and also how to better handle intellectual property issues. This is an area to increase energy entrepreneurship and put Virginia on the map as an innovative technology economy. In addition, there is an interest in an Emerging Technologies Fund, similar to a program in Texas, providing flexibility in incentive opportunities as it relates to quickly evolving technologies. Some of the existing Virginia programs, such as the solar photovoltaic incentive program, are outdated.

The subgroup would also like to find opportunities to better use recycled water – especially as it relates to manufacturing facilities and bringing efficiencies.

The group also recognized the potential negative impact of policies coming out off Washington, D.C., both through legislation and regulation. The federal government will be a driver in a number of areas and the Commonwealth needs to formulate a policy to address these concerns.

Next Steps:

The August meeting will focus on our nuclear sector partners and what their vision and needs are for the future in the Commonwealth. In addition, a coordinated meeting or presentation with the Higher Education Commission to discuss energy workforce issues is desired, as well as a presentation from the Virginia Tobacco Commission on their energy-related efforts.

VIRGINIA ENERGY PLAN – EXECUTIVE SUMMARY

The General Assembly established a state energy policy framework in Chapter 1 of Title 67 of the Code of Virginia and directed the Department of Mines, Minerals and Energy to draft the Virginia Energy Plan. The General Assembly further directed that the Plan be updated by July 1, 2010, and every four years thereafter.

The Code set energy policy and objectives for the Commonwealth. These broadly provide that Virginia should:

- Ensure availability of reliable energy supplies at reasonable costs;
- Establish sufficient infrastructure to support energy needs;
- Use resources efficiently and facilitate energy conservation;
- Facilitate development of Virginia's low cost resources, including clean coal and natural gas;
- Facilitate development of less polluting energy sources;
- Foster energy research and development; and
- Address environmental protection with energy facilities.
- Virginia uses a diverse mix of energy resources.
- The transportation sector uses 31 percent of total energy use.
- The residential sector uses 24 percent.
- The commercial sector uses 23 percent.
- The industrial sector uses 22 percent.
- Energy use by sector varies.
- Petroleum is the primary energy source for transportation, providing 97 percent of transportation energy.
- Residential energy is provided primarily by electricity (53 percent), natural gas (29 percent), and petroleum (14 percent).

- Commercial energy use comes primarily from electricity (65 percent) and natural gas (28 percent).

- Industrial energy comes from a diverse mix including petroleum (32 percent), coal (19 percent), natural gas (18 percent), biomass (16 percent), and electricity (15 percent).

- This Plan assesses Virginia's energy situation through examining the state's primary energy resources: electricity, coal, nuclear, natural gas, renewables, and petroleum.
- Electricity:

- Electricity is provided by three investor-owned utilities (84.2 percent of retail sales), 13 electric cooperatives (11.3 percent), and 16 municipal utilities (4.5 percent).

- Generation and transmission of electricity is managed through the PJM Interconnection, a regional transmission operator serving Virginia, Mid-Atlantic States through New Jersey, and portions of states to the West through Illinois.

Executive Summary

Rates and terms of service for investor-owned utilities and cooperatives are set through cases heard by the State Corporation Commission.

2008 electricity use was provided 66 percent from in-state generation and 34 percent from electricity imports. Coal (44 percent), nuclear (38 percent), and natural gas (13 percent) fueled the majority of in-state generation in 2008.

Virginia's electric rates have risen over time, with a higher percentage jump in 2009. Rates vary among Virginia's electric utilities. Average prices for electricity in 2009 were 10.61 cents/kilowatt hour (kWh) for residential consumers; 8.1 cents/kWh for commercial consumers; 6.87 cents/kWh for industrial users; and 8.42 cents/kWh for transportation consumers. Rates remain below the national average, at 90.5 percent of national rates in 2009.

Coal

Virginia coal is used primarily for electric generation and industrial steam (steam coal), and coke for steel manufacturing (metallurgical coal). Virginia is a net exporter of coal.

Coal prices have generally risen over time, with current steam coal prices averaging approximately $50/ton and metallurgical coal prices averaging about $120/ton.

Coal mining is a significant economic driver of the Southwest Virginia economy, providing approximately 4,400 mining jobs and $1.7 billion in revenue from coal sales.

Nuclear

Virginia is home to four nuclear units. Owned by Dominion, there are two units each at the North Anna and Surry Power Stations. These plants came on line between 1972 and 1980. Their operating licenses have been extended through 2032 and 2040. Dominion is considering constructing a third nuclear reactor at the North Anna Station.

Virginia is a leader in nuclear technologies, with AREVA, B&W, and Northrop Grumman Newport News providing nuclear plant design, fuel services, nuclear plant maintenance, nuclear plant component manufacturing, and nuclear shipbuilding.

Virginia is home to a commercially viable uranium deposit at Coles Hill in Pittsylvania County. There is a moratorium on mining due to questions whether the uranium can be safely mined in Virginia's environment. The Virginia Coal and Energy Commission is studying the safety and economic impact of possible uranium mining.

Natural Gas

Natural gas is provided by ten investor-owned and three local government natural gas local distribution utilities. Large industrial and institutional consumers can also purchase their natural gas directly. Approximately 37 percent of Virginia's households and 90,000 commercial businesses use natural gas.

Rates and terms of service for the investor-owned local distribution utilities are set through cases heard by the State Corporation Commission.

Natural gas is delivered to Virginia through pipelines carrying natural gas produced in the Gulf of Mexico region, pipelines carrying natural gas produced in the Virginia and other Appalachian natural gas fields, and through the liquefied natural gas terminal in Cove Point, Maryland.

Natural Gas prices have risen over time. In 2008, residential consumers paid on average $16.20/thousand cubic feet (MCF), commercial consumers paid $12.98/MCF, industrial consumers paid $1.49/MCF, and utility consumers paid $10.87/MCF.

Virginia's natural gas companies produced 128.5 billion cubic feet of gas in 2008 from 6,428 wells, with approximately $0.5 billion in revenue from gas sales. Wells are located in Southwest Virginia. Approximately 80 percent of production comes from natural gas found in coal seams. There is potential to produce additional natural gas from Marcellus Shale formations and, subject to federal leasing, from offshore wells.

Renewables

Renewable sources of energy provided approximately 2.8 percent of electricity generated in Virginia and approximately 6 percent of gasoline consumed in the state.

The greatest potential for renewable energy production in Virginia comes from biomass, hydro power, and wind power. Solar power can provide distributed power to end users across the Commonwealth.

Geothermal energy can provide heating and cooling through use of geothermal heat pumps. Virginia does not have high-temperature geothermal resources suitable for electric generation.

Petroleum

Petroleum products are supplied to Virginia through pipelines carrying gasoline, diesel, aviation fuel, and other products produced in Gulf of Mexico area refineries; from the Western Refining refinery in Yorktown; and from water borne supplies delivered to coastal petroleum terminals.

Western Refining has a production capacity of 70,000 barrels per day, slightly less than 15 percent of the state's consumption.

Petroleum prices are largely set by national and international markets. Prices have been volatile over time. For example, gasoline prices have ranged from over $4.00 per gallon in September 2008, down to current prices of $2.70 per gallon.

Virginia companies produce a nominal amount of petroleum from 75 stripper wells in Lee, Wise, and Russell Counties. There is potential to produce oil, subject to federal leasing, from offshore wells.

This plan sets out three goals and includes recommended actions.

1. Make Virginia the Energy Capital of the East Coast.

2. Grow both traditional and alternative energy production, jobs, and investment in Virginia.

3. Increase the use of conservation and efficiency in Virginia's homes and businesses and support the establishment and expansion of energy efficiency businesses.

4. Expand public education about Virginia's energy production and consumption, its effect on our economy, and how Virginians can use energy more efficiently.

5. Maximize the investment in clean energy research and development through the work of the Universities Clean Energy Development and Economic Stimulus Foundation.

FINDINGS, GOALS, AND RECOMMENDATIONS

Findings

- In completing the 2010 Virginia Energy Plan, we find:
- Growing Virginia's economy and supporting the quality of life of our citizens requires a diverse portfolio of energy supplies. We must continue to rely on traditional energy sources such as coal, natural gas, nuclear, and petroleum, while at the same time making alternate sources such as biomass, wind, hydro, and solar a larger part of our energy mix.

- Virginia has ample in-state energy resources. Virginia's energy businesses can generate new jobs and investment developing these resources.

- Virginia's consumers have the opportunity to use energy resources more efficiently. Expanding conservation and efficiency will support new jobs for Virginians, reduce waste of our natural resources, and keep our financial resources inside the state's economy.

- Developing new and emerging energy technologies will require public universities and private businesses to partner in energy research and development, manage shared intellectual property, and expand the energy business sector in the Commonwealth.

- Virginia's energy environment is complex and dynamic. Therefore, the Department of Mines, Minerals and Energy will review and revise this plan periodically over the next four years in order to stay on target making Virginia the Energy Capital of the East Coast.

Goals and Recommendations

1. **Make Virginia the Energy Capital of the East Coast.**
    a. **Grow both traditional and alternative energy production, jobs, and investment in Virginia.**
    b. **Increase the use of conservation and efficiency in Virginia's homes and businesses, and support the establishment and expansion of energy efficiency businesses.**

Goal 1 Recommendations:

- Grow in-state production of energy, with resulting jobs and investment, by 20 percent over the next 10 years.
    - Begin offshore natural gas and oil development, and expand onshore oil and gas development in Virginia, through an open regulatory process that facilitates safe and environmentally sound energy production and eases market entry for new and expanding oil and gas businesses.
    - Develop the environmental response infrastructure to support offshore oil and gas production so the systems are in place when development is allowed in the future.

- Expand development of renewable resources, particularly using biomass, waste, and wind resources, to generate electricity and produce liquid fuels. Particular emphasis should be placed on activities that provide secondary benefits such as water quality improvements.
    - Provide green job tax credits and other financial support to companies providing new jobs and investments in clean energy production. Support should be based on a positive return on investment to the Commonwealth and its localities for their support.
    - Revise the solar photovoltaic manufacturing incentive grant fund to broadly cover renewable energy manufacturing businesses.
    - Provide an efficient permitting process for biomass, wind, and other alternate energy resources to facilitate timely project development consistent with good environmental protection.
    - Support the private sector's efforts to grow Virginia's offshore wind development and supply chain industries. This should include:
        - Supporting work of the Virginia Coastal Energy Research Consortium (VCERC) and the Virginia Offshore Wind Development Authority; and
        - Working with the Bureau of Ocean Energy Management, Regulation and Enforcement (former Minerals Management Service) to streamline the federal offshore wind leasing process.
    - Support production of biomass and algae-based drop-in fuels to support military and private uses for transportation and heating.
    - Support development of new electric generating resources to meet growing electric demand, including the third nuclear reactor at the North Anna Power Station and new base-load, intermediate load, and peaking generation from conventional resources.
    - Support the development of the new generation of nuclear power plants, such as the AREVA Generation III+ boiling water reactor (BWR) and the B&W mPower reactor, and the manufacturing of plant components.
    - Facilitate partnerships between Virginia's electric utilities and private generation developers where private developers can deliver power more cost competitively for ratepayers.
    - Facilitate development of private power projects to serve out-of-state markets.
    - Balance the need for low-cost power to support Virginia manufacturing, commerce, and citizens' quality of life with the need to provide long-term, stable, clean energy supplies.
    - Support expansion of distributed generation options at industrial, commercial, and residential sites.
    - Assist Virginia's coal and natural gas industries comply with state and federal requirements for safety, environmental management, and reclamation. This will lead to strong mining companies working to support the economic and environmental health of the communities in which they work.
    - Complete the study of the efficacy of uranium mining in Virginia in order to decide whether the existing moratorium should be continued or removed in the Commonwealth.

- Expand jobs and investment in energy efficiency services.
    - Facilitate development of local and utility energy efficiency programs that overcome market inefficiencies and market failures that reduce investment below optimal levels.
    - Support energy efficiency as a way to help low-income, elderly, and fixed-income families address their energy needs.
    - Provide necessary systems to support delivery of energy resources under emergency conditions, addressing civilian and military needs.

2. Expand public education about Virginia's energy production and consumption, its effect on our economy, and how Virginians can use energy more efficiently.

Goal 2 Recommendations:

- Implement State Corporation Commission's *Virginia Energy Sense* consumer energy education program.
- Coordinate energy efficiency public information efforts among utility, federal, state, and local sources to provide clear and easily understandable messages to consumers.
- Expand energy-related education in all phases of Virginians lives through:
    - Expanding community college jobs training in areas such as energy auditing and efficiency, utility and related trade activities, and renewable system operation and maintenance; and
    - Expand university programs in areas such as nuclear power, energy engineering, and environmental management.

3. Maximize the investment in clean energy research and development through the work of the Universities Clean Energy Development and Economic Stimulus Foundation.

Goal 3 Recommendations:

- Coordinate energy R&D actions among universities and private companies to maximize value of state resources.
    - Working with the Lieutenant Governor, serving as the Chief Job Creation Officer, and Cabinet offices, coordinate resources available through the Tobacco Commission, Virginia Economic Development Partnership, Departments of Mines, Minerals and Energy, Agriculture and Consumer Services, and Business Assistance to optimize growth of energy jobs across Virginia.
    - Implement Virginia Universities Clean Energy Development and Economic Stimulus Foundation.
    - Establish the Virginia Energy Initiative to bring together research capabilities of our major research universities under one canopy to help focus efforts on developing energy technologies for the 21st century.
    - Promote development of offshore oil and gas development as a source of VCERC research and development funding.
    - Support R&D for clean coal technologies and carbon sequestration.

- Work with the Virginia Tobacco Commission, private sector energy leaders, community colleges, and our major research universities to establish Southside and Southwest Virginia as the nation's hub for traditional and alternative energy research and development.

Governor's Commission on Economic Development & Job Creation

Manufacturing Subgroup Interim Report

Subgroup Activity:

The Manufacturing Subgroup of the Governor's Commission on Economic Development and Job Creation has met twice since the first full Commission meeting. During the May 26th meeting, members discussed the research materials provided, clarified areas of concern, and reviewed Virginia's various manufacturing demographics. Subgroup members approved their "Visions Strategies" and identified key stakeholders to reach out to for input and guidance.

At the July 12th meeting, the Subgroup members discussed their research and progress on further formulating the group's "Visions and Goals" in preparation for the Interim Report. Subgroup members discussed their meetings with stakeholders, state departments, and the manufacturing community at large.

Subgroup members will continue to meet and communicate with key stakeholders as they work towards a comprehensive final report. Stakeholder groups include (but are not limited to):

American Chemistry Council, National Association of Manufacturers, PhRMA, Shenandoah Valley Partnership, VACO, Virginia Biotechnology Association, Virginia Career and Technical Educators Association, Virginia Career Colleges Association, Virginia Chamber of Commerce, Virginia Community College System, Virginia Council on Advanced Technology Skills, Virginia Craft Brewers Council, Virginia Department of Business Assistance, Virginia Department of Taxation, Virginia Economic Development Partnership, Virginia Electronic Commerce Technology Center, Virginia Industry Foundation, Virginia Manufacturers Association, Virginia Seafood Council, and Virginia Wholesalers and Distributors Association and Virginia Workforce Council.

Analysis:

Virginia has long been recognized as a good home for manufacturing. The Subgroup's purpose is to advance innovative, achievable recommendations that will enable the Commonwealth to expand upon the existing base and become even more attractive for manufacturers operating in today's competitive global marketplace. Specifically, the Subgroup will advance proposals to assist Virginia in becoming the best state in the country in which to manufacture industrial and consumer goods, a destination for new jobs, and the best state in which to locate manufacturing company headquarters. This is very attainable given Virginia's current strengths and present adverse developments in many states across the U.S.

Several areas of opportunity have been identified, including:

- Workforce Development
- Regulatory Policy
- Taxation

Following the May 26 meeting, the Subgroup members reached out to manufacturers representing a broad spectrum of industries across the Commonwealth. Suggestions and ideas which would help spur economic development, retain and expand the manufacturing base and create new jobs were solicited. The Subgroup received several suggestions, including those opportunities noted above, to further Virginia's competitiveness. The Subgroup also received resounding appreciation to the Governor for placing an emphasis on manufacturing.

Among the opportunities, Virginia's regulatory policies will require special and continuing consideration. At a high level, they appear to be balanced and fair, but they are not without challenges to future manufacturing costs and competitiveness.

A 2006 JLARC Study indicated that globalization, technology and productivity improvements, and increasing labor costs were the principal drivers for job loss in the manufacturing sector between 2000 and 2005, not Virginia's regulations. Further, the recent loss of manufacturing jobs appears to be largely influenced by the challenges impacting all sectors of the economy, including significant competitive pressure on firms competing on a global basis. Given these factors, it will be important that prospective effort be focused on identifying opportunities to reduce the cost burden of regulations to enhance manufacturing competitiveness.

For this reason, the Subgroup believes that a desired outcome should be a regulatory environment in Virginia that promotes competitiveness and economic growth.

While it is clearly important that the environment be protected and workplaces be safe for Virginia to remain a competitive state for manufacturers, the Commonwealth should exercise care to avoid the path of other states by imposing environmental regulations more stringent than, or in lieu of Federal regulations, without a demonstrated need. Further, regulations should maintain an appropriate balance between environmental or social purposes and economic development.

Vision Strategies:

Vision: To create an environment where current Virginia manufacturers can expand and allows Virginia to recruit new traditional and advanced manufacturing companies and new jobs to the Commonwealth.

Approach:

I. This subgroup will examine the current manufacturing incentives and tax structure, review any regulatory burdens and consider what changes are necessary to expand manufacturing opportunity in Virginia.

Strategies:

I. Examine and recommend regulatory and tax structure improvements. Review manufacturing programs for appropriate resource support and make reallocation of resource recommendations to promote overall state competitiveness.

II. Recommend how to build out and develop additional mega-sites for advanced manufacturing facilities.

III. Identify economic development-related determining factors by size of company for manufacturers that have decided to or not decided to place assets in Virginia.

IV. Identify advanced manufacturing sectors and clusters, domestic and foreign owned, where Virginia is best positioned to recruit new businesses and develop strategies to incentivize companies in those sectors to locate in Virginia.

V. Rank the effectiveness of the Virginia Investment Partnership (VIP) Grant as a manufacturing retention/expansion tool. Ensure that Virginia has the appropriate tools to retain and expand its manufacturing base.

VI. Increase R&D and applied technology projects with manufacturers and Virginia's higher education institutions, including community colleges.

VII. Engage leading manufacturing companies and organizations in the implementation of strategic manufacturing goals and initiatives.

VIII. Enhance workforce development readiness and skills credential resources for manufacturers and promote workforce development as an asset to potential Virginia manufacturers.

IX. Reduce direct and indirect environmental permitting process and compliance costs for manufacturers.

X. Expand the use of the Port of Virginia for Virginia Manufacturers through incentives.

XI. Expand the use and availability of broadband throughout the Commonwealth.

Initial Ideas and Recommendations:

1) Allow single sales factor election to be fully used in an expedited manner, instead of transitioning to 2014. 22 other states already allow this for manufacturers, including GA, KY, LA and SC. Remove the penalty and interest provision of the single sales factor. The certification and base year level of employment accompanied by penalty and interest, if the company fails, is equally onerous given today's business climate. Having the single sales factor elective is a positive approach.

2) Make it easier for changes between the three methods of corporate income taxation in the state—consolidation, combination or separate filing. In Virginia, a corporation can elect one of three group filing methodologies (separate, combined or consolidated) and once chosen, it can be very difficult to change. There is a very specific statutory carve-out that few taxpayers qualify for, as you must have filed for 20 consecutive years on your former method, and agree to file under your "old" and "new" methodology for two years, paying the greater of the tax.

3) Create manufacturing related tax credits that are refundable or transferrable. Virginia offers many different credits but few are manufacturing specific.

4) Allow R&D tax credits that are refundable, transferrable or are allowed to be applied against taxes other than just income tax; e.g., license taxes, property taxes, etc.

5) Organize existing workforce development programs to better prepare emerging and adult workers with industry certified skills credentials and work readiness in order to be productive in lean advanced technology businesses. The skills needed by manufacturers five years ago, are not the skills required today. Manufacturers need to lead the development of curriculum and competency-based assessments leading toward skills certifications and need the support of the public system for implementation.

6) Expand the Tuition Assistance Grant Program.

7) Provide for government incentives for individuals to participate and fulfill the program in demand by the businesses. Facilitate a demand-driven workforce development system.

8) Develop a Port Tax Incentive Program for Manufacturers. North Carolina, South Carolina and Georgia all have good examples to review.

9) Improve the utility and reduce the costs of using Foreign Trade Zones for all manufacturers.

10) Consider strategies to address the issue of the Machinery & Tools Tax such as:
    a. Repeal the tax without new local revenue.
    b. Repeal the tax only on new investment.
    c. Allow manufactures to deduct local M&T taxes from state income tax payments.

d. Grant manufacturers a transferable income tax credit for local M&T taxes paid annually.

11) Evaluate current manufacturing government programs and recommend, where appropriate privatization opportunities or a reallocation of resources to best serve the largest group of manufacturers.

12) Create tax incentive for steam generation and on-site renewable energy production.

13) Create a research and development collaborative modeled after the Georgia Research Alliance and Georgia Tech University whereby industry is encouraged to engage institutions of higher education in research and development, particularly sponsored research and applied science and engineering.

14) Implement an expedited permit approval process on all levels when new capital investments and new jobs are being considered or when existing jobs are at risk. Permits are required on many levels, but Virginia can provide a good example to local governing bodies by implementing a "fast track permitting" process for speedy approval when economic investments, meeting certain specific commitments, are being contemplated.

15) Create a system of incentives to promote the collection and expansion of a private market of recyclable materials for beneficial use in manufacturing.

Next Steps:

In the interim, the staff and Chairman of the Manufacturing Subgroup will continue to meet with interested parties soliciting ideas and examine other programs in competing states.

At our next meeting will we will meet with Chair of the Workforce Development Subgroup to discuss specific ways that Workforce Development impacts the manufacturing community.

The Subgroup will meet again on August 16th in Richmond to further vet initial recommendations followed by a September meeting to finalize a list of recommendations to send to the Governor.

Small Business Subgroup Interim Report

Subgroup Activity:

The Small Business Subgroup of the Governor's Commission on Economic Development and Job Creation has met twice since the first full Commission meeting. During the June 3rd meeting members discussed the research materials provided, clarified areas of concern and reviewed Virginia's small business demographics. The Subgroup members approved their "Visions Strategies" and identified key stakeholders to reach out to for input and guidance.

At the July 6th meeting, the Subgroup members heard reports from the Virginia Department of Business Assistance, the Virginia Small Business Financing Authority and the Department of Labor and Industry. Members discussed their research and progress on further formulating the group's "Visions and Goals" in preparation for the interim report. Subgroup members discussed their meetings with stakeholders, state agencies and the small business community members.

Subgroup members will continue to meet and communicate with key stakeholders as they work towards a comprehensive final report. Stakeholder groups include:

Associated Builders and Contractors, Associated General Contractors, Home Builders Association of Virginia, Farm Bureau, Independent Insurance Agents of Virginia, Metropolitan Business League, National Association of Women in Construction, National Federation of Independent Business, Virginia Agribusiness Council, Virginia Association of Community Banks, Virginia Association of Realtors, Virginia Bankers Association, Virginia Chamber of Commerce, Virginia Association of Counties, Virginia Credit Union League, Virginia Hospitality and Travel Association, Virginia Independent Automobile Dealers Association Virginia Municipal League, Virginia Nursery & Landscape Association, Virginia Petroleum Convenience & Grocery Association, Virginia Retail Federation and the Virginia Retail Merchants Association.

Analysis:

The SRI conducted a study on behalf of the Virginia Economic Development Partnership (VEDP) titled "Catalyzing Innovation in the Commonwealth." The report analyzed Virginia industries, benchmarked economic and innovative foundations, established potential high-growth technologies, outlined best practices from successful technology investment programs and identified strategic inferences for economic development. While it recognized Virginia's many economic strengths; it also highlighted areas of deficiency including improving Virginia's small business environment.

In 2009, the Wall Street Journal published its annual list of the "Best and Worst States for Small-Business Taxation." The list was based on 16 different tax measures including: income, poverty, death/inheritance, unemployment, and consumption-based taxes like those on gas and diesel. The top ten best tax systems for small business are: 1) South Dakota, 2) Nevada, 3) Wyoming, 4) Washington, 5) Texas, 6) Florida, 7) Alaska, 8) Colorado, 9) Alabama, and 10) Ohio. Virginia ranked 16th on the list.

The Small Business & Entrepreneurship Council also ranks states according to their public policy climates for small business and entrepreneurship in the "Small Business Survival Index 2009: Ranking the Policy Environment for Entrepreneurship Across the Nation." The Index helps business owners, investors and lawmakers understand the public policy burdens placed on entrepreneurship and small business in the states, and ranks them accordingly. The factors included in the Index – taxes, various regulatory costs, government spending, property rights, health care, energy costs, and others – matter a great deal to the competitiveness of each state and to the well being of small businesses. In terms of their policy environments, the Top-Ten entrepreneur-friendly states under the "Small Business Survival Index 2009″ are: 1) South Dakota, 2) Nevada, 3) Texas, 4) Wyoming, 5) Washington, 6) Florida, 7) South Carolina, 8) Colorado, 9) Alabama, and 10) Virginia.

While Virginia is one of the more small-business friendly states, significant work is needed to achieve Governor McDonnell's goal of making Virginia the "Best State in which to Own and Operate a Small Business." More attention, resources and support needs to be given to the programs and agencies that serve Virginia's entrepreneurs. The 230,000 small businesses in Virginia (companies with less than 250 employees) comprise 98% of all existing businesses in Virginia and account for approximately 75% of new job growth in the Commonwealth. They are the heart and soul of Virginia's economy.

Currently, Virginia has over 35 different state agencies that may touch a small business and over 100 business assistance and regulatory programs. While much of the state aid does not specifically apply to small businesses, several programs are designed to help small businesses grow and prosper.

The main provider of small business assistance programs in Virginia is the Department of Business Assistance (DBA). The DBA provides assistance to small businesses through three primary departments: the Virginia Jobs Investment Program (VJIP), the Virginia Small Business Financing Authority (VSBFA) and the Virginia Business Information Services (BIS).

The VJIP offers assistance to businesses through three primary departments: New Jobs Program, Small Business New Jobs Program, and the Retraining Program. Of these three programs, only the latter two apply to small businesses in the Commonwealth. DBA's VJIP has small business workforce programs, approaches and information on success rates. Workplace education and training remains a challenge for small businesses due to the cost of setting up and administering these programs. As with the rest of the country, Virginia's workforce is ever changing. Our workforce development needs should be intertwined with education, continuing education for existing workers and partnering with our community colleges and universities to help develop a skilled workforce, ready to meet the business community's needs.

As the needs for workforce training change, we need to address and identify areas and adjust how we train for the future. The VJIP and the seminars/workshops of BIS within DBA have very useful input and information on best practices in educating employers. Other agencies such as VEC, DOLI and DEQ also have relevant information for small businesses to use.

The VSBFA is the Commonwealth's economic development financing program. While grants are not available through the Authority, it does provide debt financing assistance to Virginia's established, existing businesses and those looking to expand into Virginia. VSBFA provides direct loans in partnership with bank loans to businesses from appropriations received from a one time Federal grant. VSBFA also provides loan guarantees to support bank loans and administers targeted direct loan programs for other state agencies. The VSBFA's ability to aide Virginia's small businesses is directly tied to the amount of funding received from the General Assembly. There are limited funds available and uncertainty as to what will be available each year. In past budget cycles, funding has been so constrained that some VSBFA programs have been put on hold or eliminated, further reducing the options available to Virginia's small business community.

The DBA also offers several informational services. These programs include: Entrepreneur Express, Virginia Business Information Center, Virginia Business One Stop, One-on-One Business Builder Counseling, and Business Sales Growth Seminars. A lack of funding, established marketing plan and limited staff have left these quality programs without the ability to properly meet the business community's needs. Additionally, multiple other agencies house important reference information, guides to business formation and educational programs for employers. While all of the information is extremely helpful, the lack of coordination and single point of contact can leave the entrepreneur confused and overwhelmed.

DBA's budget has declined 56% over the eight years, including a 51% staff reduction over the past four years. In addition to the reduced services and departmental capabilities, the Department's ability to track, examine, identify, and write grant applications to the Federal government is very limited. Federal grants could help fill financial voids and aid businesses that cannot be served through current means.

Vision Strategies:

To spur entrepreneurship, expand existing businesses and create new jobs, the resources and programs available to Virginia small businesses need significant enhancements. For Virginia to become the best state for small business, economic development strategies and incentives must be aligned to support and encourage all of Virginia's job creators. Business formation and existing business expansion are the largest drivers of job growth in Virginia. While large investments have been made to bolster business recruitment incentives, aid to existing businesses and budding entrepreneurs is lagging behind.

Approach:

I. This Subgroup will focus their evaluations and recommendations on two areas: aid to existing small businesses and business start-ups.

II. This Subgroup will examine the existing programs and initiatives and look at ways to improve workforce development, economic development and education in the Commonwealth.

III. Establish a long term Strategic Plan to make Virginia the best state in which to own and operate a small business.

Strategies:

I. Identify what programs Virginia offers to business start-ups and examine who is using them and who is not. Examine ways in which Virginia can increase exposure and access to more entrepreneurs.

II. Examine what hurdles to small business creation the Commonwealth can remove or alter.

III. Examine the programs that are available to existing small businesses and find what, if any improvements can be made.

IV. Examine what tax code changes or incentives would spur small business growth and job creation.

V. Consider how Virginia can improve and enhance its small business financial assistance programs and how to get more capital in the hands of small businesses.

VI. Identify ways to consolidate entrepreneurship support and information.

VII. Identify ways Virginia can work with its Congressional delegation to secure federal small business funding to be administered by the Virginia Small Business Financing Authority and the Virginia Capital Access Program (VCAP). Consider how Virginia can expand the opportunities to small and medium-size community banks.

VIII. While Virginia is the #1 State for Business, we need to examine what will make Virginia the #1 State for Small Business.

IX. Work with Workforce Development Subgroup and examine the workforce needs of Virginia's small businesses.

X. Discuss promotion and expansion of the use of workplace-oriented education and training, including the use of registered apprenticeships.

XI. Consider ways where Virginia can promote and expand the use of educational programs for employers.

Initial Ideas and Recommendations:

1. The budget of the DBA needs to be increased to a level more commensurate with the tax-paying constituency that the Department serves. DBA's budget has declined 56% over the past 8 years (2002-2010), including a 51% staff reduction over the past 4 years. Even with these drastic budget cuts, DBA has shown a 6 to 1 return on investment. By returning their funding to prior levels, we can leverage an even larger return on investment.

2. To help provide access to capital, consider the development of a Small Business Investment Tax Credit to expand early stage investments in targeted Virginia small businesses. The program may include provisions to provide tax credits to investors who make capital investment in certified small businesses.

3. DBA's status, funding, marketing and promotion needs to be elevated. Additionally, the consolidation of DBA under other economic development agencies, reduction of the department to sub-agency status, or any additional reduction of funding would further undermine the needs of the small business community.

4. The VSBFA needs more funding for its multiple loan and financing tools available to help Virginia entrepreneurs. Inadequate funding has left the Authority with little ability to help more than a handful of businesses. Businesses are turned away, not because they do not deserve help but because the programs are woefully underfunded.

5. Expand the types and sizes of companies eligible for state aid or support. Because of federal funding requirements, many of the incentive or loan programs are only available in specific regions of the state or for very specific purposes. The VSBFA needs additional revenue for the ability to be flexible in its financial programs.

6. Develop a model for grants to small businesses as long as they have the combined capability and infrastructure to define, manufacture, sell and support an innovative product or service. DBA would provide a grant up to 50% of the project budget referred to as a "Conditional Grant". The grant receiver is obligated to repay the DBA the total Conditional Grant received plus a small interest only from revenue generated by the product or service upon successful commercialization.

7. Virginia needs a statewide marketing campaign to promote the Commonwealth's small business friendly departments, programs and websites, as well as the other state sponsored educational opportunities available to the small business community. DBA's Business Information Services are some of the best kept secrets offered by the Commonwealth. This is due to a lack of marketing dollars available to promote the programs and resources the entrepreneurial community needs. Most state agencies offer

quality education programs for employers, but without marketing support the constituency the programs are meant to help is unaware of the available aid.

8. Significantly enhance the "Virginia Business One Stop" website into a "First and Only Stop" by increasing the information, resources, and assistance available to Virginian entrepreneurs to ensure that truly only one stop is necessary to get a new business up and running with minimal delay. Furthermore, Virginia needs to do a better job linking similar state and local requirements through Virginia's Business One Stop website so that information need be entered only once. Consider ways to address the issue of access fees as they turn away potential users. Communicate and coordinate with all state agencies and localities to ensure necessary forms and information are provided. Incentivize local governments to post business forms and required submissions in a searchable, easy-to-use format.

9. Promote Virginia as the "Best State in America to Open a Small Business." Much attention is given to the grand opening or relocation of Fortune 500 companies in Virginia but little is said about the many small businesses that thrive here. Virginians often hear about "mega projects," the Governor's Opportunity Fund, and the newest opening of a corporate headquarters, but we rarely hear about the accomplishments of the small business community even though small firms comprise the vast majority of businesses and the workforce.

10. Small business owners can often struggle to learn the state laws, rules and regulations. The creation of small business specific advisories to announce when state laws or regulations change would prove beneficial to small business owners.

    - Ex. The Small Business Advisory Act (Illinois). This act requires every State agency to make available on the internet a small business advisory page. The Illinois Attorney General uses the page to provide small businesses with a plain language explanation of any proposed or adopted rule or new legislation that affects small businesses. Explanations are posted for a minimum of 6 months. Small businesses are also directed to the State's Department of Commerce and First Stop Business Information Center, which operates as a central clearinghouse, notifying the small business community of each new rule or change in requirements affecting small businesses.

11. Create tax incentives to help our smallest firms hire employees or expand their locations/equipment. There are initiatives in a number of states that are being taken to encourage entrepreneurism. Some good policy initiatives enacted that have clear effects on entrepreneurs are:

    - Iowa adopted a capital gains exclusion for business sales.
    - Kansas cut property taxes.
    - Massachusetts slashed its tax rate on income and dividends.

- Arizona, Delaware, Rhode Island and Wisconsin cut personal income taxes across the board, Maryland continued its personal income tax phase out, and New Mexico and Oklahoma cut the highest personal income tax rate.

Additional tax reform ideas include:

- Strategies to reform the BPOL tax. The BPOL tax, which is unfairly affects small businesses, is a detriment to economic development and job growth. Furthermore, the BPOL tax is structurally biased against start up businesses and effectively discourages businesses from selecting Virginia as a place to do business.
- Consider instituting the IRS model regarding fines for partnerships with less than 10 partners who pay on time.
- Tax credit for advertising assistance.
- Adding incentives for job creation by small businesses to help small employers such as a $500/year unemployment tax credit for each unemployed Virginian hired or an income tax credit for each employer who keeps previously unemployed employee for 24 months.
- Tax production and manufacture of digital content on cost of goods sold, not sales value, such as tangible goods.
- Manufacturing equipment exempt from personal property tax.

12. The SRI report benchmarked Virginia's innovation foundations. Those benchmarks found that Virginia is average or weak in small business loans, business start-ups and entrepreneurship support. Compared to other benchmark states, (MD, GA, CA, FL, NY, MA, WA, NC, PA, and the US average) Virginia had the 2nd lowest level of entrepreneurs per capita in 2005 (220 per 100K population). The strategic focus for Virginia needs to be nurturing entrepreneurship and increasing access to capital.

13. Improve customer service to entrepreneurs. Provide online approvals and prompt notifications to those who apply online. Allow for "fast track" fee based system for quick turnaround of licensing paperwork.

14. Website needs to house the updated "How to Start or Expand a Business" guide in a format easily available for downloading and saving. Consolidate the following into one accessible guide:
    a. Business Registration Guide from SCC
    b. Virginia Guide to Establishing a Business from VEDP
    c. A Guide to Business Incentives from VEDP
    d. Guide to Local Taxes on Business from VEDP

15. Help entrepreneurs identify and apply for small business grant programs. DBA should be fully focused on grants and provide training to grant writers. Furthermore, DBA should meet quarterly with the congressional liaison and discuss how they should be working to apply for and receive more grants.

16. Assess small business community's workforce needs by category and training type to

prevent one size fits all method.

18. Identify strategies to help DOLI expand worker training and development. Continue the model of utilizing community colleges and regional education centers that provide classroom space and instructors by job classification..

19. Develop public/private partnerships where larger businesses can mentor and partner with smaller businesses for worker training and development.

Next Steps:

In the interim, the staff and members of the Small Business Subgroup will continue to meet with interested parties soliciting ideas and examine other small business programs in competing states.

At our next meeting, Chris Chmura, President and Chief Economist for Chmura Economics & Analytics, a quantitative research, economic development and workforce consulting firm located in Richmond will present a recent study on the BPOL tax commissioned by the Virginia Retail Alliance.

The Subgroup will meet again on August 17th in Richmond to further consider initial recommendations followed by a September meeting to finalize a list of 8-10 recommendations to send to the Governor.

Governor's Commission on Economic Development & Job Creation

Technology Subgroup Interim Report

Subgroup Activity:

Since the initial meeting of the Commission, members have met twice – June 2 and July 9 in Fredericksburg - to review documents that outline statewide technology-based economic development programs and strategies. They also heard more detailed presentations from VEDP, CIT, the Secretary of Technology's office on the history and status of broadband activities across the Commonwealth. The Subgroup identified several areas that will have the greatest impact on tech-based economic growth. Members are cognizant of the economic and budgetary challenges facing the Commonwealth, and are reviewing existing programs that need greater coordination, marketing and enhancement. The Subgroup is also reviewing successful tech-based economic development programs from other states that could be adopted for use in the Commonwealth.

Subgroup members also recognize the value of reaching out to stakeholders for comments, input and discussion and have identified the following organizations:

The Virginia Technology Alliance and the Ten Regional Technology Councils; Virginia Biotechnology Association ; Association of University Technology Transfer Managers (AUTM); National Business Incubation Association; Virginia Active Angel Investor Network; Mid-Atlantic Venture Association; and National Venture Capital Association.

The next meeting of the Subgroup is scheduled for August 11 in Richmond.

Analysis:

After hearing presentations and reviewing materials, Subgroup members determined that while the Commonwealth has programs in place to help other sectors, it lacks significant programs and policies directed specifically at early stage high growth, tech-based companies. These are the type of 21st Century companies that will drive innovation, future economic growth and sustainable jobs in the Commonwealth.

Presentations from VEDP/SRI and material from the Commonwealth Innovation Index being conducted by the Ten Regional Technology Councils and CIT identify unique and common industry clusters. For instance, energy and green technology industry clusters are being pursued in most regions, while an industry like bioscience has greater emphasis and opportunities in Richmond, Charlottesville and Northern Virginia because of the early investments in those areas.

Each region has a unique focuses such as the Lynchburg/Region 2000 area, which is focused on the nuclear and wireless industries.

While these studies are exploring many innovative opportunities within these clusters, they are also bringing to the surface many gaps that are impeding the Commonwealth from taking full advantage of the greater benefits of a technology-based Innovation Economy.

The two primary gaps that need to be addressed are the access to capital, including investments and tax credits, and commercialization of research and technology development. The aforementioned industry clusters, coupled with the economic downturn or transformations in some areas are attracting energetic entrepreneurs of early-stage, innovative, high-growth companies. These are companies at the early stage of the innovation spectrum between angel investments and more significant investments. Because of their unique nature, even in good economic conditions, these entrepreneurs have difficulty finding seed investments from the private and public sectors in Virginia. Today, the flat economy and frozen capital markets have only exacerbated the problem.

Vision Strategies:

Virginia must use new and existing technology and resources to position itself to create future technology-based economic development opportunities that spur sustainable job growth. We must promote the use of technology to help us solve many of the challenges we face as a Commonwealth, such as smart transportation solutions, a cleaner environment, more efficient health care delivery, increased educational opportunities for all citizens and a lasting effect on long-term economic stability.

Approach:

I. This Subgroup will examine existing programs and initiatives currently offered within the Commonwealth, while analyzing potential changes and enhancements, using best practices from industry and other sources inside and outside the Commonwealth.

II. This Subgroup will focus their evaluations and recommendations in those areas that foster innovation and technology-based economic development strategies.

Strategies:

I. Reaffirm financial support for sustainable or increased funding for CIT GAP Fund and tax credits for early stage companies.

II. R&D Strategy - look at ways to establish a statewide research and development strategic plan that clearly articulates the research direction, investment requirements, expected quantitative and/or qualitative returns and obstacles to resolve.

III. Assess which sectors of biotechnology and information technology Virginia is currently positioned to develop and consider strategies to maximize opportunity within those sectors.

IV. Accelerate Broadband Deployment: Update the Commonwealth Broadband mapping and development plan to address the gaps in coverage in all localities.

V. One major area that can and will lead to job creation is the implementation of electronic medical records. This is a major initiative that should be considered to see how Virginia can position itself to take full advantage of updating these records.

VI. Consider how we can attract advanced technology early stage investors to Virginia.

VII. Examine how Virginia can implement a refundable R&D tax credit targeted at advanced technology companies, especially those that sponsor research with Virginia universities.

VIII. Increase the number of investors who apply for the Angel Investor Tax Credit through effective marketing of the program.

IX. Consider how increase biotechnology infrastructure including additional Bioscience "wet-lab" development.

X. Examine the Technology Business Commercialization Programs (Business Incubator Program).

XI. Streamline and simplify the technology transfer process at Virginia institutions.

XII. Provide outline for all-up Chief Executive marketing/public relations campaign to promote Virginia's assets around job creation and viability for formation of new, organic businesses.

XIII. Modeling and Simulation: Examine ways to grow the modeling and simulation center at Old Dominion University, review opportunities and complementary research that will expand additional centers throughout the Commonwealth.

Initial Ideas and Recommendations:

Capital Formation

The Commonwealth has some small programs with limited funding available to assist entrepreneurs, but the Subgroup agrees that more is needed. Specifically, members are reviewing:

- A refundable R&D tax credit targeted at advanced technology companies, especially those that sponsor research with Virginia universities. A similar tax credit is used in 38 other states.

- An advanced technology jobs convertible loan fund for high-growth, advanced technology companies based in the Commonwealth.

- Increase the Angel Investor's Tax Credit and also explore the possibility of auditing and improving existing marketing programs to increase the number of applications for the Angel Investor Tax Credit.

- Increased funding for the CIT GAP Funds, which has invested $3.8 million since 2004 and has helped 39 companies, that have attracted another $51 million in private investments – a 13 to 1 return on investment.

- A "VentureVirginia" program to increase venture capital investment that generates funds with tax credits to insurance companies that expedite payment of their state taxes due in 2015. The concept is being advanced in Maryland, Tennessee, and Texas, and is similar to the Small Business Investment Company Credit offered by Delegate Merricks and part of the Governor's Agenda in the 2010 Session.

- Programs to attract advanced technology early stage investors to Virginia by investing in a special life sciences, clean energy, medical devices, or other technology services venture capital fund or "fund of funds" that would be matched by private venture capital.

- A relocation fund to attract innovative, high growth technology companies from other states to Virginia.

R&D Strategy, Commercialization and Tech Transfer

In addition to addressing the capital formation "gap," the Subgroup is also focusing on the need to improve the Commonwealth's Research and Development strategies and investments, as well as the commercialization of university research. In 2008 Virginia ranked 16th nationally in R&D expenditures. To inject more R&D in the Commonwealth, Virginia must execute on its recent decision to develop a long-term strategic R&D plan that is integrated with a capital investment plan that is not limited to new facilities, as has been done in the past. As the Commonwealth's Chief Research Officer, the Secretary of Technology must establish a comprehensive strategy that includes:

- The work being conducted by the Innovation and Entrepreneurship Investment Authority to establish a statewide research and development strategic plan.

- Streamlining university developed intellectual property licensing and commercialization to reduce inherent barriers to university/industry collaboration.

- Establishing an immediate emphasis on energy research, commercialization and new company formation.

- Coordinating existing transportation-sector initiatives and encourage development of alternative product and service offerings through research, commercialization and new company formation.

- Reprogramming and investing in the Commonwealth Research and Commercialization Fund (CRCF) to serve as an incentive for new and improved commercialization programs.

As this new approach to R&D planning generates innovation and marketable solutions, the Commonwealth will need to improve technology commercialization to enhance the transition of these discoveries from the research lab to the market place. Specifically, the Subgroup is reviewing:

- The need to streamline and simplify the technology transfer process at Virginia institutions by creating incentives that reward policies and programs that simplify contractual and financial negotiations while providing reasonable wages for researchers and value based pricing for industry.
- A Virginia version of "San Diego CONNECT" to link entrepreneurs, capital, talent and technologies available for commercialization in the Commonwealth.
- A strong focus on research and investments in alternative energies and green technologies, and the expansion of modeling and simulation activities across the Commonwealth.

Wetlabs and Incubators

The expansion of wetlabs and incubators has long been supported by previous state commissions and policy groups to enhance Virginia's competitiveness in life sciences. Expanding wetlabs would allow Virginia to attract companies by having product "in place" rather than just showing prospects raw land which will add 12-15 months to the occupancy timeline. It also allows Virginia to compete with other states implementing various types of loan and lease guarantee or grant programs for biotechnology facilities.

The Subgroup is also reviewing the idea of a comprehensive program to create a network of "knowledge-based" industry incubators and commercialization centers around the Commonwealth – both university-affiliated and independent. Knowledge-based businesses are often founded by scientists, engineers and other technology-oriented individuals who may have had little or no experience in starting a business or in dealing with business challenges. This is frequently in contrast with companies started out of general business incubators which often are founded by individuals with previous startup or business experience.

While the recommendations and principles advocated apply to both university and independent incubator programs, Subgroup members strongly recommend targeting any new funds to those incubators with sound business plans and acknowledged best practices that demonstrate a strong return on investment.

Broadband

Broadband access is crucial to the Innovation Economy. The Virginia Tobacco Commission has invested more than $100 million for broadband infrastructure build out in both Southwest and

Southern Virginia. Currently, CIT is investing $1.8 million in broadband data collection and mapping activities and $500,000 for broadband planning activities over a two-year period in Virginia. The Subgroup will continue to work with Karen Jackson, Deputy Secretary of Technology, to determine additional recommended actions.

Health IT

Virginia possesses many assets needed to be a national leader in health IT and has gotten off to a strong start on creating electronic health records. Due to the proximity and actions underway at the federal government, along with the innovation by many of Virginia's IT companies, Virginia is ahead of many other states as it relates to health IT. Working through existing HHR initiatives, Virginia should inventory and assemble these pieces into a cohesive statewide strategy that can be used to claim leadership in the health IT sector.

The Subgroup fully supports recommendations by the Transition Team to invest more in health IT. According to transition documents, a first step is to begin to digitize all medical records. As a start, the Governor should require that all state employees' health records be digitized. This would send a signal to the private sector that Virginia is ready to engage in public-private partnerships to expand the use of health IT, lowering the cost of healthcare delivery while creating economic development opportunities and jobs.

Already, an initiative is underway to expand the use of electronic health records (EHR). Earlier this year, the Virginia Healthcare Quality Center and CIT won a $12 million co-operative agreement from the U.S. Department of Health and Human Services and its Office of the National Coordinator for health IT to implement the expansion of electronic health records (EHR) for nearly 2,300 priority primary care providers in Virginia by February 6, 2012. These providers are defined as urban and rural practices with less than 10 healthcare providers. Currently in Virginia these practices have less than a 10% adoption of EHR. This program will help improve healthcare and reduce costs in Virginia, while creating health IT jobs across the State.

On June 15, Virginia HIT, the federally designated Regional Extension Center for Virginia, in partnership with the CIT, announced its preferred partners to work with primary care physicians across the Commonwealth (including pediatricians and obstetricians/gynecologists). These three partners — Allscripts, athenahealth, and MDLand — will provide a Software as a Service (SaaS) solution to approximately 2,300 physicians to meet EHR certification requirements for Meaningful Use. Additional services will include education, technical and implementation resources.

The Subgroup believes that the Commonwealth should pursue other components inherent in a strategic health IT program. Given the cluster of many large and small businesses and non-profit organizations that are engaged in health IT, and their proximity to and strong contractual relationships with federal agencies, Virginia is well positioned to be a leader in this field. To further explore this area, members will consult with the Secretary of Health & Human Resources, VEDP and others on additional health IT and telemedicine initiatives and opportunities, such as personalized medicine, point-of-care diagnostics, computational technologies, data interchange and other innovations that are revolutionizing the healthcare industry.

Modeling and Simulation

The Subgroup recommends the continued development of modeling and simulation technologies in the Commonwealth. Since the founding of the Virginia Modeling, Analysis, and Simulation Center in 1997, the industry has seen significant growth take place, becoming a $640 million industry employing over 5,000 people with an average salary of $83,000 each year. The Subgroup advocates a number of action items, such as examining opportunities for pilot and/or demonstration projects using modeling and simulation with Virginia state government agencies as well as working to attract a federal Modeling and Simulation Lab in Virginia. These complement local initiatives already underway in Hampton Roads and Northern Virginia.

Marketing

Although the Subgroup is advocating these additional measures, members agree that much more needs to be done to market existing tools to entrepreneurs and investors. Members will recommend suggestions on ways that the Commonwealth can celebrate entrepreneurs and innovation, and also initiate an audit of existing materials and tools to enhance their effectiveness.

Next Steps:

In addition to narrowing, focusing and building on existing ideas and recommendations, the Subgroup agreed that more information is needed in the areas of health IT and broadband access.

The Subgroup also began discussing the use of local technology zones that use tax breaks and other incentives to attract innovative high growth technology companies. Members and staff will conduct additional research into the use of the technology zones and how they can be linked to other federal and state programs, and consult with staff from the Secretaries of Health and Technology to determine what needs it can best address in the areas of health IT and broadband. These issues will be the primary points of discussion at the Subgroup's next meeting in August.

Governor's Commission on
Economic Development & Job Creation

Tourism Subgroup Interim Report

Executive Summary

Governor Bob McDonnell and Co-chairs Lieutenant Governor Bill Bolling and Senior Economic Advisor Bob Sledd have charged the Economic Development and Jobs Creation Commission to develop a series of innovative, achievable proposals to build on recent successes to create new jobs and grow Virginia's economy.

The tourism industry is uniquely positioned to play a leading role in Virginia's economic recovery. Through increased visitation and longer lengths of stay, tourism can create new jobs, provide additional state and local tax revenue and inject consumer spending into Virginia's economy more quickly than any other industry. Likewise we should seize the opportunity to attract more film projects, investment by film companies quickly provides economic vitality to businesses and the local tax base as well as jobs for Virginia's film industry.

The return on investment for tourism is immediate and proven. In 2008, 60 million visitors came to Virginia, generating $19.2 billion in economic impact, supporting 210,000 jobs and providing $1.28 billion in state and local taxes. For every $1 spent on tourism the Commonwealth receives $5 in additional state and local tax revenue. Every $90,000 in tourism spending creates 1 new job. In addition, the film industry has a 14:1 return on investment. Clearly, a robust, dynamic and expanding tourism and film industry is a crucial component to the overall strength of Virginia's economy.

Governor McDonnell and the Jobs Commission leadership understand the importance and benefit of tourism, film, state parks and the wine industry. During his campaign, Governor McDonnell committed to doubling the budget of the Virginia Tourism Corporation from $15 million to $30 million. He pledged to increase funding for the film industry by increasing the Governor's Motion Picture Opportunity Fund by $2 million and increase the focus on marketing and research of the Virginia Wine industry. The Tourism Subgroup strongly endorses these initiatives.

Enjoying broad bi-partisan support from the General Assembly, Governor McDonnell's approved budget increased VTC's budget by $3.6 million annually, dedicated the wine-liter tax to wine marketing and development and established Virginia's first Motion Picture Tax Credit.

However, these important first steps were just that – first steps. If Virginia is to be competitive in the global marketplace, we must take further steps to tourism.

To grow the tourism industry, we must increase visitation to Virginia and increase the average length of stay (ALOS) of each tourist. Virginia currently ranks 8th in domestic visitation spending and 14th in international visitation. The key factors that drive visitation and extended length of stay are superior marketing, product (attractions, lodging, entertainment, etc.), and accessibility (roads, mass transit, infrastructure, etc). To maximize Virginia's tourism market and market potential, we must address these key factors.

The Tourism Subgroup will systematically assess tourism product deficiencies in all regions of the Commonwealth and the effectiveness of existing tools. The Subgroup will examine what new tools are needed to develop tourism products and attract more visitations and spending needed to revitalize the economy. These assessments will provide a road map to how Virginia can expand and further strengthen on our existing marketing efforts and strategies to maximize the economic impact of the film, wine and tourism industries.

The following report will outline the Subgroup's assessment of current tourism strength, weaknesses and opportunities and provide initial recommendations to grow tourism in Virginia

Subgroup Activity

In addition to the Subgroup members, the Tourism Subgroup has been assigned expert agency staff from the Virginia Tourism Corporation, Secretary of Agriculture, State Parks and Virginia Department of Transportation to assist with their work

To maximize the skill set of subgroup members and assigned agency staff and thoroughly analyze and develop innovative achievable policy recommendations, the Tourism Subgroup divided its work into five subcommittees, including:

- Product Development – Pat Jones, Chair
- Finance & Development – Bruce Thompson, Chair
- Marketing – Lisa Gable, Chair
- Film – Daphne Reid, Chair
- Wine – Ann Heidig, Chair

Each subcommittee met internally to assess the current status of their subject matter area, comparative destination programs (our competition), and to identify stakeholders. They will layout goals, strategies, work plans and initial policy directions and recommendations. While the subcommittee activity is ongoing, initial reports of each are included in this report.

The full Tourism Subgroup met twice in Richmond. At the first meeting, members discussed and agreed on vision strategies and work plan for the Subgroup, and at the second meeting subcommittee reports were received and discussed. The Subgroup will meet again on August 12 in Virginia Beach.

During the interim, subcommittees will continue to meet with stakeholders and state government policy experts to further solicit ideas and refine recommendations.

Analysis

While tourism touches dozens of state agencies, the VTC is the primary entity of the Commonwealth to promote Virginia within our borders, across the country and around the world.

Despite the proven return on investment and economic and job creation benefits of tourism, the VTC has absorbed a disproportionate share of budget cuts. From 2001 to 2005, VTC's budget was cut by $10 milliion forcing deep cuts in marketing, development and grant programs. In fact, while states like Michigan and Alabama spend millions every year advertising in Virginia and across the country, the VTC has been unable to afford television advertising outside of Virginia since 2008 and their field activities, which provide essential tourism industry business and community development, have been severely diminished.

Even though Virginia boasts unparallel natural and historic resources, a talented film production work force and a 14:1 return on state film investment, the Virginia Film Office has been neglected in recent years. Virginia's incentive program ranks near the bottom of the over 40 states with film incentive programs, thus losing film projects to other destinations.

Since 2006, Virginia has lost 12 major film projects to other states, including the movie based on the life of Virginia bred and raised Secretariat. The economic impact of those 12 projects was $367 million. Additionally, in 2007 and 2008 Virginia lost 500 film industry jobs while nationally film employment rose by 4 percent. The lack of film production and competitive film incentives not erodes the industry in Virginia and misses opportunities to showcase the natural beauty and assets of the Commonwealth.

Virginia has not only fallen behind competitors in tourism marketing and film production, but is at a significant disadvantage with other states with tourism incentive programs. Dozens of other states including South Carolina, West Virginia, Kentucky, Alabama, Arkansas, Montana and California have a variety of tax credits, tax exemptions and grant programs to promote tourism development. Many other state tourism agencies also have dedicated funding sources for the purposes of tourism marketing, while Virginia does not.

Additionally, tourism has historically not received the same treatment as other economic expansion industries in Virginia. Currently, tourism projects are not eligible for the traditional economic development incentives or programs that are enjoyed by other industries like manufacturing, energy and technology. While hundreds of state tax credits, exemptions and other benefits exist for nearly every significant industry in Virginia, none exist for tourism.

Whether marketing dollars, tax incentives, dedicated revenue sources, or access to tourism development opportunities, the tourism industry is at a significant competitive disadvantage to both tourism agencies in other destinations and other industries within Virginia.

Despite the aforementioned obstacles, the VTC, and other tourism related agencies including State Parks and the Virginia Wine Board, have made progress during the past several years, particularly with creative approaches to partnerships with the private sector, allowing Virginia to remain competitive. In 2007, Virginia moved from 10^{th} in domestic spending to $8^{th.}$ (US Travel Association has not released 2009 stats). In 2009, Virginia ranked 14^{th} in international spending, an increase of 4 spots over 2008—and the largest increase of any other competitive state.

In addition to Virginia's inherent assets – natural beauty, world-class state parks, beaches, history, geographical proximity to major markets and international portals – VTC has utilized widely recognized branding, innovative marketing partnerships to leverage funds 3 to 1 with the private and public sectors; increased strategies in electronic marketing resulting in a top website for unique visitation, focused upon cost-effective earned media and other innovative approaches to ensure that the Virginia Is For Lovers brand remains relatively competitive. Applying these same innovations with greater marketing reach will ensure greater return on investment for Virginia.

The Tourism Subgroup will provide recommendations to capitalize on existing assets, while addressing the product, marketing and accessibility deficiencies to create a more complete experience to increase visitation, extend ALOS and ultimately add jobs and grow our economy.

Tourism Subgroup – Vision Strategies

Vision: To create the optimum environment that maximizes tourism expenditures and revenue for the creation and sustainability of tourism jobs in the Commonwealth. To achieve the foregoing, it is acknowledged that increased tourism and film marketing and increased rural and urban tourism development is required.

Approach:

I. Support Governor Bob McDonnell's platform to double the VTC's marketing and development budget, provide competitive tools to the Virginia Film Office, expand

Virginia Wine and Agri-tourism, optimize our State Parks and fully utilize Welcome Centers and Rest Areas.

II. Establish two pronged approach to tourism development and job growth: A rural strategy and an urban (or dense tourism product) strategy.

III. Consider return on investment, job creation and state and local revenue for each strategy.

Strategies:

I. Identify by locality what product development is needed. (For example, an entertainment center for Virginia Beach; a hotel and more restaurants for Patrick County).

II. Using VTC data and locality needs data, determine what product development strategies are needed for both urban and rural Virginia to expand Virginia's tourism footprint and attract more visitors.

III. Determine what, if anything, is needed in the area of Sports Marketing, Horse Racing and Outdoor Recreation. Discuss collaboration and coordination of marketing resources and efforts.

IV. Develop a strategy to maximize economic impact of Agri-tourism, particularly Wine Tourism Marketing and Development, including utilization of off-site permits.

V. Working side by side with Department of Business Assistance, determine what unique programs are required to inspire tourism entrepreneurs and match them with the localities' needs.

VI. Benchmark with other destinations to determine what tourism development programs are currently being deployed by the competition; recommend that Virginia Tax Department explore impact if deployed in Virginia.

VII. Endorse the Governor's platform to restrict expansion of law to allow localities to open before Labor Day.

VIII. Explore and endorse strategy to maximize Rest Area and Welcome Center operations.

IX. Get recommendations on a multi-tiered approach to Film Production based upon availability of more state investment, including Digital Media and Commercial Advertising Production.

X. Consider ways to improve and expand film production studies in higher education

XI. Identify potential revenue sources for sustaining tourism funding, including license plates and permanent funding formulas.

Initial Recommendations

Based off the initial work of the Tourism Subgroup and its committees, we anticipate offering detailed policy recommendations related to the following initiatives. These are all preliminary suggestions designed to give the Jobs Commission leadership and members a better idea of the ultimate work product of the Tourism Subgroup.

1. **Establishment of a Tourism Development Fund** – Virginia has significant tourism product deficiencies that affect our ability to attract new and repeat visitors and extend their length of stay. Unlike most major industries in Virginia, tourism does not enjoy tax incentives, grant programs or a dedicated funding mechanism for product development. The Tourism Subgroup recommends the creation of a Tourism Development Fund designed to provide gap financing for locally endorsed and supported tourism projects – small and large, rural and urban – through grants, loans, loan guarantees, bonds or other funding mechanisms. The Fund will require a state, local and private sector partnership, be self-sustaining, not divert funds from any existing programs and ultimately have no net impact on the General Fund.

2. Reaffirm Governor McDonnell's commitment to double VTC budget – If this goal is reached, it will generate $1 billion in incremental revenue, $68 million in incremental visitor spending and 11,150 new jobs.

3. Consider sources of dedicated tourism funding – Rest Stop opportunities, public-private consortiums, license plates, etc.

4. Increase funding for Governor's Motion Picture Opportunity Fund, Film Tax Credits and expand definition to provide incentives to television commercial production.

5. Promote the growth of new and existing wineries, through the use of a capital improvements tax credit, elimination of burdensome regulations, aggressive cross marketing strategies and use of remote wine licenses in heavily travelled regions.

6. Attract and recruit companies that make or deliver the goods and services needed by wineries, such as cooperage, glassware, rootstock, and implements.

7. Develop a more integrated brand awareness and sustainable marketing plan that leverages partnerships with state agencies and private sector stakeholders.

8. Work with localities to develop a comprehensive regional product catalog and product needs.

9. Shift from providing visitors with listings of state tourism opportunities to providing them with regional experiences that are niche and trend themed.

10. Reaffirm support for post-Labor Day School Opening.

Next Steps

The Tourism Subgroup will meet on August 12 in Virginia Beach and again in early September. During the interim, members and staff will continue to consult stakeholders and expert state resources to further vet and refine potential policy proposals. All policy proposals will be considered for return on investment and job creation impact before they are recommended by the Subgroup to the full Jobs Commission meeting on September 30.

Subcommittee Reports

The following reports represent the initial activity of each subcommittee, including work plan, goals and in some cases initial recommendations. Each committee is in different stages of policy development and all information included is in a preliminary and working draft form. The reports are condensed for the purpose of this document and full reports can be found on the Tourism Subgroup's page of the Jobs Commission website.

Tourism Product Development Committee
Governor's Commission on Economic Development and Jobs Creation
Competitive Analysis of Virginia's Tourism Product

Pat Jones, Chair

Staff: Chris Canfield, VTC; Joe Elton, DCR; and Jake Porter, VDOT

<u>Tourism Product Development Committee Overview</u>

<u>What we are trying to accomplish?</u>

Assess Virginia's tourism product needs in various regions and localities across the state (urban and rural), including entertainment venues, lodging, state parks, meeting and convention venues (or increased usage), sporting events or sporting opportunities, restaurants, attractions, entrepreneurs, roads and infrastructure that will generate economic growth and jobs.

<u>Action Plan</u>

Conduct a research-based analysis of Virginia's Tourism Product Inventory using existing information as well as conducting specific new surveys on product needs to make the Commonwealth more competitive as well as filling voids in the industry. Research to include the following State Agencies:

Virginia Tourism Corporation (VTC)

- ✪ Analyze existing research from consumers identifying strengths and weaknesses of Virginia's nine (9) Tourism Regions
- ✪ Conduct an electronic survey of Virginia's tourism industry and local government planners to analyze product needs. This list of interviewees includes:
  - Local government contacts such as town and city managers, county administrators and local economic development contacts (535 contacts)
  - Regional Economic Development Groups (60 contacts)
  - Planning District Commissions (33 contacts)
  - Destination Marketing Organizations (120 contacts)
  - Tourism Industry private sector businesses (4,000 contacts)
- ✪ Initiate Telephone Interviews with major stakeholders for more qualitative research
- ✪ Conduct one-on-one interviews with industry leaders who can look at the region from a competitive level
- ✪ Once data is received, compare results of visitors survey to that of the industry's survey to identify best matches of what the industry needs as well as demand from consumers

Department of Conservation and Recreation (DCR)

- ✪ Review Outdoor Recreation Plan on a regional basis identifying the top projects and priorities for best Tourism return on investment (ROI)
- ✪ Identify state park renovation and new construction projects that would stimulate higher return visitation and attract new visitors to Virginia
- ✪ Analyze existing trail projects that spur economic development in rural areas, as well as the Bluegrass to Beaches Trail

- ✪ Identify state park investments, including construction of cabins and campsites, that will stimulate additional economic development from the private sector
- ✪ Explore any opportunities for the private sector to partner with the State Park system
- ✪ Recommend Visitor Center renovations or creation
- ✪ Review and analyze customer satisfaction survey of the State Park system

Department of Transportation (VDOT)

- ✪ Identify top transportation issues and policies facing the tourism industry on a regional basis (This includes roadways, scenic roads, rail, waterways, signage, access, trail development as well as welcome centers and safety rest areas)
- ✪ Identify and prioritize which major transportation projects will provide the biggest ROI which leverages the optimum existing and potentially new tourism businesses integrated with one or more additional economic development and job creation commission sectors
- ✪ Conduct preliminary project cost-benefit analysis to delineate those projects which create the greatest short and long-term revenue margin over and beyond costs

Tourism Product Development Committee Worksheet

Tourist expenditures equate to jobs and taxes for the Commonwealth. Keys to successful visitation rely on attractive product, successful marketing and accessibility.

What products are needed? What Policies can make that happen? How do we fund them?

This committee will look at new development or expanding existing product on a competitive basis to move Virginia forward in gaining more tourists and increasing expenditures.

In this analysis, we will breakdown Tourism product development into three areas:

- ✪ Economic - lodging, dining, sports venues, entertainment attractions, state parks, etc.
- ✪ Socio-Cultural – historic preservation, authenticity, arts, education
- ✪ Infrastructure – accessibility, roads, signage, rail, air, water, etc.

Economic Aspects are ones that provide a direct investment of capturing tourists' dollars such as hotels, restaurants, theme parks, etc.

Socio-Cultural Aspects preserve an area's heritage or give an area a specific personality. Examples of this range from Colonial Williamsburg to The Crooked Road Music Trail.

Infrastructure addresses the needs of hosting tourists whether it is transportation for travelers or environmental issues for development. This will vary depending on community's existing infrastructure.

The Tourism Product Committee will be tasked with evaluating new product as well as bolstering existing. This can be done by:

- Visitor Survey which lists items needed in each region to appeal to tourists.
- Electronic Survey of Virginia's Tourism Industry to determine specific competitive product needs
- Interviews with tourism & community leaders to identify opportunities in VA's nine (9) regions.
- Study of State Parks opportunities, upgrades and development needed
- Report from VDOT of Transportation Issues facing VA Tourism Industry

At the end of this research, the Product Committee will also complete a chart for each of the 9 regions outlining their development needs, competitive edge, and the projects that will create the greatest return on investment. The committee should be able to produce a report that shows what our industry says is needed to move forward and cross-tab those findings with what our visitors say is needed. This should provide the full committee with an overview of Virginia's inventory and which new products need to be developed to remain competitive.

<u>Tourism Finance and Development Committee</u>

Governor's Commission on Economic Development and Jobs Creation

Bruce L. Thompson, Chair

Staff: Randy Marcus, Chief Jobs Creation Office; Alisa L. Bailey, VTC

Summary

The Tourism Subgroup Finance & Development Committee is tasked with working with stakeholders and state government experts to develop funding recommendations that will address the product and marketing deficiencies identified by the Tourism Subgroup. Additionally, the Finance & Development Committee will consider proposals to provide a more stable and dedication sustaining funding source for the VTC and offer suggestions for maximizing tourism related revenue from Welcome Centers and Safety Rest Stops.

Double funding for VTC

From 2001 to 2005, VTC's budget was cut by $10 million, forcing deep cuts in marketing, development and grant programs. Until VTC's budget was increased during the last biennium, they had not been able to advertise Virginia outside of Virginia since 2008. When competitor states are flooding our airways enticing people to visit their states, the lack of marketing dollars for VTC is unconscionable.

Tourism marketing has a proven return on investment. For every dollar spent on tourism marketing, the Commonwealth realizes a return of $5 in state and local taxes and every $90,000 in tourism spending creates 1 new job. Unlike other industries, tourism benefits are immediate and should be maximized as soon as possible to create new jobs and stimulate Virginia's economy

Governor McDonnell recognizes this deficiency and has committed to doubling funding for the VTC. The Tourism Subgroup strongly supports Governor McDonnell's proposal and encourages reaching this goal as soon as possible.

Tourism Development Fund

Purpose: While the Commonwealth of Virginia rightfully invests millions of dollars in attracting and retaining large corporations to the state to create jobs and achieve a high return on investment in economic impact and taxes, few, if any programs exist to help localities—both urban and rural—build the necessary tourism infrastructure to achieve the same results.

The Product Committee is assessing the tourism product needs in every region of the Commonwealth to create a more complete experience for the traveler and increase visitation and ALOS. Despite tourism's significant return on investment, no state tax incentives or dedicated development funds exist for tourism projects. The Finance Committee recommends the creation of a Tourism Development Fund to help address the product needs across the Commonwealth.

A Tourism Development Fund would provide localities with the tools to attract developers and entrepreneurs, expand their tourism product, complement their destination experience and thereby attract and expand visitor spending. This, in turn, will create a more prosperous destination, more jobs for Virginians, and more tax revenue for state and local governments.

The Tourism Subgroup agreed that an ideal scenario could be accomplished for funding assistance from the smaller-rural inn or restaurant to the medium-sized project such as a convention center hotel in a Tier II city to a mega-million-dollar entertainment center.

Some of the basic criteria and possible structures for the programs include:

1. Public-private partnership that includes the developer's investment, locality investment and state investment
2. Start up funds from the General Fund, which would be paid back through the program over time
3. Self-imposed fund access fee upon the developer/area or the retention of tax revenue generated from the project would not only pay back the initial state start up costs, but also provide the revenue stream for sustaining the program without general fund investment
4. Plan could be structured to provide gap funding, loan, loan guarantee, revenue stream for debt service or interest rate reduction
5. All programs include the locality as identifying the project and providing an investment that would be subordinate to the state's investment
6. All projects should be part of an overall tourism development plan
7. State investment would be paid back first and in some situations the locality might not require reimbursement
8. Consider existing programs and legislation that could be utilized for tourism development
9. Any proposal would be required to project job creation, economic impact and tax benefits

<u>Sustainable Funding Source</u>

Because VTC does not have a dedicated sustainable funding source, they are forced to compete with education, health care and public safety as well as other economic development agencies in the General Fund every year for base budget funding.

The Finance Subgroup will consider options for increasing dedicated and sustainable funding sources available to VTC, including license plates, public/private consortiums, maximization of potential commercialization opportunities, rest stops and other models.

Marketing Committee

Governor's Commission on Economic Development and Jobs Creation

Lisa Gable, Chair

Staff: Diane M. Béchamps, VTC

Marketing Subcommittee Mission:

The Tourism Subgroup Marketing Sub-Committee's task is to provide suggestions on how to increase awareness of existing tourism marketing programs and any new programs under development, increase coordination between state, local and private entities, generate greater intrastate awareness once a visitor is in Virginia and maximize the average length of stay (ALOS).

The specific intent of the subgroup is to look for ways to increase frequency and reach and the demand for travel in Virginia using the power of integrated marketing to connect with consumers and to entice more people to visit, stay longer and spend more money.

Marketing Subgroup Background:

Governor McDonnell's number one tourism priority is to double funding for the Virginia Tourism Corporation by the year 2013. The Governor recognizes that tourism is not only an investment with a high return but that it is also an instant revenue generator for the state. For every one dollar invested in tourism marketing and advertising, five dollars is returned in state and local taxes (Source: Longwood's International Study of VTC advertising 2007).

What will this mean for marketing? Doubling the tourism budget in four years could provide an investment of $19.5 million more into marketing and advertising equivalent projects and would produce **more than $1 billion** in additional economic impact. But more importantly that impact would generate **$68 million** in state and local taxes and support **11,150 new jobs.**

For more than 40 years, Virginia has steadily been building a powerful asset: *Virginia is for Lovers.* The *Virginia is for Lovers* brand is one of the two most highly recognized state tourism slogans and logos in the country along with *I Love New York*. While the slogan Virginia is for Lovers, developed in 1969, has great brand equity and is highly recognized and connected to travel in Virginia, it is important to keep it fresh and relevant to today's target consumer. Therefore Virginia is for Lovers is supported by a relative campaign. The current Virginia is for Lovers consumer campaign is called LOVE and targets generation X and baby boomer families with children between the ages of seven and fourteen years old, primarily in Virginia, Washington, D.C., Baltimore and North Carolina.

In the summer of 2009, VTC conducted two research studies to learn more about consumer behavior among travelers and potential travelers to Virginia. Both studies provided VTC with a better understanding of consumer behavior and led to the conclusion that families living close to Virginia are the best prospects to provide high volume visitation and high per-trip spending.

The task at hand became making Virginia is for Lovers relevant to those families. The Virginia is for Lovers LOVE campaign differentiates the product attribute-based norm of competitor marketing and advertising equivalent programs with an emotional promise and states that "Love is at the heart of every Virginia vacation" and positions the state as a place for family vacations and family traditions. More about the campaign can be found under advertising on VATC.org.

During the first meeting of the Marketing Subgroup, the question was asked, "Do we market the product we have to the right audience in the right way?"

Key indicators such as domestic and international economic impact reports and the VTC's performance measurement report for FY10 suggest that we are. Here are some of the highlights:

- Virginia moved from 10th place to 8th in domestic visitor spending among all US states
- Virginia moved from 18th place to 14th place among states, with a 16% increase in visitation, the highest percentage change of any state
- In FY10 VTC generated $10.7 million in earned media which leveraged the investment 26:1
- 6.4 million unique visitors to Virginia.org, a .06% increase over FY09 and a 7.5% increase over FY08, nearly 100,000 Facebook fans and an eNewsletter List database, 441,174, a 24% increase over FY09
- VTC hosted 11 sweepstakes that generated 68,678 incremental leads. Another 35,239 leads were generated in fiscal year 2010 from sweepstakes that began in fiscal 2009, bringing the total leads for fiscal 2010 to 103,911
- VTC increased domestic marketing leads by 11% and distributed 16,156 group, sports, meetings and AAA leads to Virginia's tourism industry
- In FY09-10, VTC awarded 45 participants $462,540.75 in grants - matched by $1,744,011.65 from the partners – thereby leveraging each VTC grant dollar at least 3.7 to 1.

<u>What can we do differently to increase market share and visitor spending and create new jobs as a result?</u>

Prior to Governor McDonnell's appropriation of $3.6 million more to the VTC budget for FY11, VTC was limited in advertising to instate broadcast only and three primary markets out of state. We need to move out of the state and further the field to Philadelphia, New York City, South Carolina, Ohio and Atlanta.

Today's competition is global and fierce. We have to work harder to leverage our limited dollars. For every dollar appropriated to VTC, the staff works hard to leverage it at least 3:1 through cooperative marketing programs and initiatives.

Other states employ marketing budgets nearly twice our size. Michigan, for example, is currently running a $9 million national television campaign for 10 weeks on 14 cable networks across the country. VTC's out-of-state television budget is $1 million and will reach only four primary markets.

While we work to increase our marketing investment in tourism, there are ways to attain greater frequency and reach without hard dollars. The GCEDJC Marketing Subgroup has identified the following to support that objective:

1. Consider partnership opportunities to further integrate state agency and statewide Virginia tourism industry marketing with the Virginia is for Lovers LOVE campaign
2. Increase visitor average length of stay (ALOS) and improve customer planning experience by deploying upgrade and add-on strategies to visitor itineraries at welcome centers, on Virginia.org and in the state travel guide

3. Make a radical shift from providing visitors with listings of state tourism opportunities to providing them with regional experiences that are niche and trend themed
4. Increase the usage of meeting and convention venues throughout the state
5. Increase sporting events and sporting opportunities statewide
6. Examine sustainable marketing fund opportunities

If these objectives are met and the Governor doubles funding for VTC, the following goals can be realized:

1. Increase the average length of stay by two days
2. Double VTC marketing budget to $30 million by 2013
3. Generate $1 billion in incremental revenue
4. Generate $68 million in incremental visitor spending
5. Generate 11,150 new jobs

Film Committee

Governor's Commission on Economic Development and Jobs Creation

John Langlois and Daphne Reid, Co-Chairs

Staff: Rita D. McClenny, VTC

WHY INVEST IN FILM
There is a demand for film incentive programs. More than forty states have incentive programs and most have more aggressive programs than Virginia. Since 2006, Virginia has lost 12 major film projects to other states. The economic impact of these projects was $367 million. An investment in film creates jobs, ensures economic success for infrastructure, supports businesses and generates taxes. Every dollar invested in Virginia's incentive program returns an average of 14 dollars. In 2007 and 2008, Virginia lost 500 film industry jobs while nationally film employment rose by 4 percent.

WHAT IS NEEDED
The $2 million in GMPOF and $2.5 million in tax credits for film are an immensely valuable resource that will bring positive results, but more is needed. Governor McDonnell's goal is to increase the growth of Virginia's media production industries. A $20 million incentive fund would give Virginia an opportunity to better compete with Georgia, West Virginia, North Carolina and other states. With the current incentives, Virginia will realize an estimated $20 million in state and local tax revenue compared to $11 million without the incentives. The Virginia Film Office could recruit as many as ten new film and interactive media projects with a $20 million investment.

FILM WORKS FOR VIRGINIA
The state's film and television industry benefits the Commonwealth through the production of films, television shows, broadcast commercials, documentaries and educational videos. The film business is an **industry** with many facets involving facilities, services, scenery and people. The facilities infrastructure benefits the economy much like the manufacturing infrastructure where a product is created. The on-location aspect performs more like a "super tourist" as on-location production companies behave much like visitors: they film in localities, rent hotel rooms and vehicles, purchase meals and local goods and services. In addition, motion pictures and television shows have proven to impact tourism. Virginia-based productions such as *Dirty Dancing, John Adams, Cold Mountain* and *The New World* all generated an interest in Virginia that resulted in increased Virginia visitation by tourists. Film and television production in Virginia is an important part of Virginia's economy, providing jobs for 4000 film professionals. The economic impact of this industry since 1980 is greater than $4 billion.

Furthermore, 25 Virginia universities have media programs including George Mason, Hampton University, Hollins, James Madison, Lynchburg College, Regent, University of Richmond, University of Virginia, Virginia Commonwealth University, Virginia State University and Virginia Tech, as well as numerous community and technical colleges throughout the state. Ensuring that the motion picture industry is strong in Virginia enables young film students to stay in Virginia to make a living. Nationally, the motion picture industry contributes $80 billion to the economy. If Virginia is to be competitive in tourism and film, investment in the Virginia Tourism Corporation is essential.

TOURISM AND FILM LEGISLATION FY2010 – 2011
Governor Bob McDonnell has made jobs the number one priority of his administration. In

creating the Governor's Economic Development and Jobs Creation Commission the governor stated: “The foremost priority of our Administration is job creation. Economic opportunity and free enterprise are the bedrock of a stable and prosperous Commonwealth. Virginia is home to abundant resources, fiscal responsibility, boundless human potential and the entrepreneurial spirit instrumental to a robust economic recovery." The Virginia film and tourism community is proud to be a part of the Governor’s economic development strategy.

CONCLUSION

An investment in film brings instant revenue and jobs to the Commonwealth and improves the quality of life of its citizens. Film works for Virginia and for Virginians.

Wine Committee

Governor's Commission on Economic Development and Jobs Creation

Ann Heidig, Chair

Staff: The Honorable Todd P. Haymore, Secretary of Agriculture and Forestry

Matthew A. Conrad, Assistant Secretary of Agriculture and Forestry

State of the Virginia Wine Industry

In less than three decades, Virginia's wine industry has grown exponentially both in size and prestige. Boasting more than 170 farm wineries in 2010, Virginia has quickly become the nation's fifth largest wine producing state. Along with that rise, wine grapes reached Virginia's Top 20 agricultural commodities list in 2009 with cash receipts of more than $10 million.

Wine connoisseurs and tourists have also discovered what we in Virginia have known for some time: the Commonwealth is an international wine destination on the rise. Just this year, Wineries Unlimited and the North American Wine Bloggers have decided to hold their 2011 annual meetings in Virginia. In addition, *Travel and Leisure* magazine recently named Virginia one of the top five new wine travel destinations in the world. Virginia was joined by Chile, Spain, Italy, and New Zealand in that prestigious listing.

According to a Virginia Tourism Corporation study, Virginia's wine and culinary tourists stay longer and spend more money than the average visitor, driving much-needed revenue into both state and local tax coffers and invigorating supporting industries across the rural economy. However, until this year, Virginia's closest competitors on the East Coast (New York and North Carolina) consistently spent more money per year promoting their industries than Virginia. New York, for example, dedicates $2.8 million to its wine grape promotion and research fund programs.

Thanks to Governor McDonnell's *Jobs and Opportunity Agenda*, Virginia has eliminated a significant portion of this disparity. As of July 1, 2010, every dollar of the Wine Liter Tax imposed on farm wineries, and collected by the state, will be used by the Virginia Wine Board for promotion and marketing of the local industry. This has amounted to an increase from $580,000.00 to $1,325,000.00 in the first year and will increase (or decrease) annually based on the amount of tax collected.

Goals

In early meetings of the Governor's Jobs Commission, it was agreed that solidifying Virginia's stature as an international wine destination will require several things, including, but not limited to the following: 1) increasing Virginia's domestic and international wine marketing and promotional efforts; 2) increasing the number of Virginia wineries to provide for a critical mass within each distinct region; and 3) increasing the number of attendant or companion services in close proximity to Virginia's wineries such as inns, beds and breakfasts, restaurants, cultural attractions, spa services and the like.

Challenges

Virginia has worked to overcome a number of challenges in its quest to become a premier wine tourism destination. Unlike our West Coast competitors, Virginia's climate does not always lend itself to easy wine grape growing. The pervasive summer humidity and the unpredictable weather patterns that give us late frosts in the spring and hurricanes throughout the harvest season dramatically increase the cost of producing a high-quality product.

The average price per ton of Virginia fruit is over $1500, nearly three times the cost of a ton of fruit grown in California. The average cost for installing an acre of vines is over $15,000 in Virginia. In addition, Virginia vineyards and wineries must import at great cost all of the rootstock, barrels, glassware and other implements required for wine production. These factors increase per bottle cost and add to a perception in the market that the cost of Virginia wine is out-of-step with its quality. Generally, the quality of Virginia wine is high, but wide variation exists, particularly among our newest wineries.

Virginia Tech and Piedmont Virginia Community College have done a good job in developing their respective viticulture and enology programs. However, budget cuts have stalled the growth of their educational programs, making it more difficult to standardize the quality of wine being produced and even more difficult to educate vineyard managers about the best techniques and varietals for Virginia's unique soils and climates.

Signage for Virginia's farm wineries is another challenge for the industry. Currently there is no signage at the entrance to any of Virginia's viticulture areas. VDOT has shared with the industry that, under current regulations, gateway signage is not permitted. Moreover, the cost and requirements of the state's Tourist Oriented Directional Signage program keep it from fully meeting the needs of the industry.

Localities' treatment of farm wineries also varies, both in general regulation and in tax policy. Although some counties give wineries and other businesses great latitude to operate tasting facilities, event space, high quality restaurants, inns, and other services for tourists, some counties, particularly in high-growth areas of the state, place considerable restrictions on where such attendant services may be located. Also, some counties choose to tax acreage used for the cultivation of wine grapes at a higher rate than acreage used for other agricultural purposes, such as growing corn, wheat, and tobacco.

The sale of Virginia wine at restaurants, grocery stores and other retail outlets has lagged behind on-site sales and direct shipment to consumers. Although sale of Virginia wine at or through wineries increased over 14% in 2009, retail sales grew at less than 3%. Although new Wine Liter Tax funds will be used to hire a Wine Marketing Office employee dedicated to increasing Virginia wines' presence in restaurants and retail outlets, the growth of this industry will be limited to the foot traffic generated by on-site visits until more Virginia wines are readily available at local dining and retail establishments.

In sum, entering into the Virginia wine business is highly risk-laden and requires intense capital investment. Even in the best circumstances, the average winery takes ten years to earn a profit. If the Commonwealth is committed to nurturing its local industry <u>and</u> reaping the economic rewards its success will bring, Virginia must: 1) find ways to lower the risk and costs for investment; 2) provide an educational, regulatory, and tax environment that encourages and sustains growth; and 3) attract companies to the state that provide the goods and services needed by wineries and vineyards, thereby lowering production costs.

Initial Recommendations to Address These Challenges:

1) Find ways to increase Virginia wine sales domestically and abroad.
2) Add gateway signage to Virginia' wine regions and improve the existing directional signage program to better meet the needs of all wineries, wherever located.
3) Strengthen the enology and viticulture programs at Virginia Tech, Piedmont Virginia Community College, and, potentially, all community colleges in wine growing regions.
4) Further educate retail and culinary communities about sale and culinary use of Virginia wine.
5) Find ways for farm wineries to use their remote licenses in regions of the state that do not have a local wine industry, but that are heavily travelled by tourists.
6) Promote the growth of new and existing wineries, through a capital improvements tax credit.
7) Identify and eliminate burdensome regulations or tax policies that hinder the growth of the industry at either the state or local level.
8) Cross market Virginia's wine industry with region-specific culinary and cultural attractions.
9) Develop standards of quality for vineyard managers and winemakers and incentivize their use.
10) Find ways to assist vineyard owners in the transition to a producing winery through the establishment of a large-scale custom crush facility.
11) Lower the cost of producing wines in Virginia by attracting companies that make or deliver the goods and services needed by wineries, such as cooperage, glassware, rootstock, and implements.

Governor's Commission on Economic Development & Job Creation

Workforce Development Subgroup Interim Report

Subgroup Activity:

The Workforce Development Subgroup of the Governor's Economic Development and Job Creation Commission held their first meeting on May 27th in Richmond, where the members of the Subgroup discussed and approved 10 Vision Strategies.

Martin Scaglione, President and COO of ACT, Inc. presented at the first meeting. ACT is an independent, non-profit organization that provides a broad array of assessment, research, information and program management solutions in the areas of education and workforce development. Each year, ACT serves millions of people in high schools, colleges, professional associations, businesses and government agencies—nationally and internationally. ACT has offices across the United States and throughout the world.

The second presentation was by Mac McGinty, Vice President of the Community College Workforce Alliance and discussed the Career Readiness Certificate.

The Workforce Development Subgroup held its second meeting on July 7th at National College in Harrisonburg, Virginia. At this meeting, Subgroup members heard three different presentations.

First, Commissioner Courtney Malveaux from the Department of Labor and Industry (DOLI) discussed the role that DOLI plays in Workforce Development, in particular the Registered Apprenticeship Program and the benefits the Apprenticeship Program has on the workforce. We also heard from an employer and their apprentice about the benefits of the program.

Our second presentation was from Debbie Melvin with the Department of Business Assistance (DBA) who discussed the role that DBA plays in Workforce Development, primarily through the Virginia Jobs Investment Program. Ms. Melvin gave a summary of the history of the program, the scope of the program and future needs.

Our final presentation was from the Virginia Goodwill Network who discussed their impact on Workforce Development through the various programs they offer and also discussed a pilot program they are implementing at Dillwyn Correctional Facility to help with prisoner re-entry.

Furthermore, Subgroup members presented their progress, discussed their research and background knowledge they learned in the interim and gave initial recommendations on goals.

As of this report, the Workforce Development Subgroup has worked with the following stakeholders: Virginia Employment Commission, Representatives from the Department of Education, the Virginia Economic Development Partnership, Virginia Community College System, the Office of Richmond Mayor Dwight Jones, Virginia Manufacturers Association, National Federation of Independent Business, Youth Career Café, Virginia Council of Economic Education, the Center for Rural Virginia, Virginia's First Cities, Capital Region Workforce Investment Board and the Lynchburg Chamber of Commerce.

Analysis:

Over the past two decades, America has been subject to qualitative and quantitative changes that have transformed the structure, functioning and rules of its economy. The result is a knowledge and idea-based economy where the keys to job creation and higher standards of living are innovative ideas and technology embedded in services and manufactured products. This new global, entrepreneurial, and knowledge-based economy is rooted in information technology and requires continuing education. It is an economy where risk, uncertainty and constant change are the rule rather than the exception.

The new economy requires major changes in the organization of industry, work, governance and politics. In particular, Virginia's educational and workforce development endeavors must be directly linked to and focused on the strategic role they play in support of the Commonwealth's economic development initiatives. In the past, economic development focused on attracting new businesses with financial incentives. Companies now require that a well-trained, educated workforce is readily available when making a decision to relocate or stay in the region.

While the goals are still the same in the new economy (e.g., increasing incomes, full employment), the means to achieve them have changed. The consensus is three main foundations will underpin strong, broad-based economic growth in the new economy: development of a ubiquitous digital economy, increased research and innovation and improved skills and knowledge of the workforce.

While Virginia has many workforce development programs, more needs to be done to ensure our workforce has the skills required to help Virginia maintain its competitive edge and to help Virginia families attain economic independence. Governor McDonnell has made it a top priority of his Administration that Virginia's community college workforce development programs become more streamlined and efficient, focusing its efforts on training students to obtain the high-quality jobs necessary to compete in today's global market.

A survey conducted by CNBC ranked Virginia number two as America's top state for doing business in 2010 behind Texas. The survey scored all 50 states - using publicly available data - on 40 different measures of competitiveness. Those metrics were separated into the ten broad categories: Cost of Doing Business, Workforce, Quality of Life, Economy, Transportation, Technology & Innovation, Education, Business Friendliness, Access to Capital, and Cost of Living.

Workforce, Virginia was ranked 9^{th} behind Florida, Arizona, Georgia, North Carolina, South Carolina, Tennessee, Utah and Idaho, and just ahead of Colorado, Arkansas, Wyoming, Kansas, Alabama, South Dakota and Texas. These rankings were based on the education level of the states' workforce, and the number of available workers. The survey also looked at the relative success of each state's worker training programs in placing their participants in jobs. Additionally, in the category of Education, the survey ranked Virginia 13^{th} based on traditional measures of K-12 education including test scores, class size and spending, and the number of state higher education institutions.

As part of its fact finding task, the Workforce Development Subgroup members will review nearly 40 "promising practices" from across the nation. The "promising practices" include youth and summer youth programs, adult and dislocated worker programs, community college programs, public-private partnerships, business engagement, transformation and innovation, accountability and transparency.

Through this review, the Subgroup's members want to ensure its recommendations integrate the best and most promising current concepts and practices. Keeping this in mind, the Workforce Development Subgroup will focus its attention on the need to improve skills and knowledge of the workforce, particularly in the following areas:

1. Build a stronger education pipeline to prepare graduates and expand incentives for continuous learning. Much has been done, but we need greater gains in the number of students completing high school, pursuing education and training beyond high school, and engaging in a culture of lifelong learning. America can still prosper in a world where its labor costs are higher than the competition's, but it cannot do so if the cheaper workers abroad are also better educated.

2. Connect workforce development to employers' workforce needs on a regional and industry basis. We need to assist local workforce investment boards and others involved in workforce development to create unifying visions and implement action plans for education and workforce development that are based on current and accessible information and are directly linked to the economic development initiatives in their regions.

3. Expand Virginia's network of comprehensive One-Stop Career Centers and ensure they provide a wide array of innovative, high-value, customer-focused programs and services to the business community, as well as enhance workers' ability to manage their careers.

4. Streamlining service delivery while strengthening governance and accountability in the workforce system. There are approximately 23 different workforce training programs spread across 9 different state agencies. State and local efforts should ensure that the maximum effort is made to eliminate duplication and unnecessary overhead, encourage the use of technology to reduce cost, and improve the coordination of agency, institutions, and programs involved in workforce training and development.

Vision Strategies:

A skilled, flexible and prepared workforce is essential to driving Virginia out of the current economic situation and maintaining our global competitiveness. The Workforce Development Subgroup will help insure that Virginia has a skilled, diverse, motivated and adaptable workforce that creates opportunities for employees and supports the needs of employers.

Approach:

I. This Subgroup will examine information on current and future employment needs and examine what legislative, budget and policy changes are necessary to strengthen and align workforce, education and training efforts to meet those needs.

II. Assist with development of a long term Workforce Development Strategic Plan, consistent with § 2.2-435.7.A.1., that benefits both employers and employees in the Commonwealth.

Strategies:

I. Effectively match education, training and workforce programs with projected workforce needs, particularly in energy, advanced manufacturing, information technology, health care and other priority economic development sectors, and use education and employment data to assist in the alignment of workforce programs.

II. Increase student success at all levels (K-12 and postsecondary education).

III. Improve transitions between secondary and postsecondary education, workforce training programs and employment.

IV. Support the Governor's Higher Education Commission's effort to increase the number of Virginians enrolling in institutions of higher education and attaining degrees and other credentials that make them career-ready.

V. Work with other Jobs Commission Subgroups and existing workforce commissions to consider the best way to organize Virginia's educational, workforce and economic development assets to increase efficiency and align goals.

VI. Expand the ability of the community colleges to focus on creating more job-skill retraining and industry-specific courses for workers of all ages throughout their lifetime.

VII. Promote, support and utilize private and non-profit training resources that lead to industry credentials and degrees and streamline and standardize the application and approval processes for becoming an approved training provider within Virginia.

VIII. Guide individuals into education and training programs that best meet their goals and to prepare more individuals in science, technology, engineering and math disciplines, including preparing more teachers to enter career and technical education fields.

IX. Promote and expand the use of workplace-oriented education and training, including the use of registered apprenticeships.

X. Improve the use of dual enrollment between public schools and community colleges, thereby allowing more students to enroll in college-level courses for credit while still in high school.

XI. Improve the working relationship with the business community to address its workforce needs.

XII. Identify appropriate measures to monitor performance and achievement of education and workforce assets.

Initial Ideas and Recommendations:

The Subgroup developed and reviewed roughly 75 different ideas and recommendations related to the strategies listed above. Below is an initial list of items the Subgroup is considering.

1) Purchase, create or build upon a system(s) that will provide user-friendly and real time information to students and job seekers about demand occupations (including those that support regional and state development efforts) while capturing pipeline information to support economic development efforts.

2) Support and more widely implement programs that prepare students for higher academic success and encourage greater collaboration between secondary and postsecondary institutions and employers.

3) Replicate statewide the successful pathway programs, such as the one currently in place among Fairfax County Public Schools, Northern Virginia Community College and George Mason University.

4) Eliminate the distinction between credit and noncredit funding.

5) Encourage and facilitate business input into curriculum development to better reflect the skills needed for success in the workplace, including an emphasis on workplace behavior and attitude.

6) Promote the ability of the community colleges to provide occupational education and training.

7) Have the Secretary of Education and the Chancellor of VCCS identify the Secretariats and agencies responsible for delivering workforce programs, including the establishment of goals around which federal and state workforce programs can align outcomes, actions, performance measures and budgets with the objective of streamlining the overall process.

8) Promote and report on workplace-oriented education and training including increased enrollment in high school programs leading to technical and advanced technical diplomas.

9) Promote more aggressively the apprenticeship programs, which provide a combination of structured on-the-job training and related classroom instruction at a community college or post-secondary technical training institution. There are many professions where the major portion of training and hence learning is accomplished on-the job.

10) Explore the creation of an initiative that would certify a community's readiness for work and continuing education and its effectiveness in aligning skills and workforce needs, define identifying regional industry mix, and demonstrate how readiness skills development aligns with workforce needs.

11) Prioritize industry sectors that have jobs on demand and direct training dollars to businesses that produce jobs.

12) Improve the usage of dual enrollment between public schools and post-secondary education institutions, thereby allowing more students to enroll in college-level courses for credit while still in high school.

13) Under the leadership of the Virginia Workforce Council, streamline the application and approval process for becoming a certified training provider for the Workforce Investment Act and develop standard and effective methods of results-measurements for regional Workforce Development Boards.

14) Direct the Workforce Council to prepare a report detailing reforms necessary to ensure services will aid in the achievement of measurable improvements in identified areas of employment and employment retention (as outlined in HB1041, 2010 General Assembly).

15) Promote, support, and utilize all private and non-profit training providers in formation and implementation of policy.

Next Steps

In the interim, the staff and Chairman of the Workforce Development Subgroup have meetings with the Virginia Employment Commission and also plan to meet with the staff from the Higher Education Reform, Innovation, and Investment Commission and the Government Reform and Restructuring Commission. The staff will continue to meet with stakeholders to solicit ideas and examine other workforce development best practices.

The Subgroup will meet again on August 10th at the Peninsula Workforce Development Center in Hampton to further vet initial recommendations followed by our September meeting to finalize a list of recommendations to send to the Governor.